Austria	Sch22	Indonesia	Rp3100	Portugal	Esc120			
Bahrain	Din0.650	Israel	NIS3.50	S.Arabia	Rls7.00			
Belgium	BFr48	Italy	L1700	Singapore	S$4.10			
Canada	C$1.00	Japan	Y600	Spain	Pta145			
Cyprus	C£0.90	Jordan	Fils500	Sri Lanka	Rup30			
Denmark	DKr10.00	Kuwait	Fils 500	Sweden	SKr9.00			
Egypt	E£2.25	Lebanon	SL125.00	Switz	SFr2.30			
Finland	Fmk7.00	Lux	LFr48	Taiwan	NT$65			
France	FFr6.50	Malaysia	Rm4.25	Thailand	Bt50			
Germany	DM2.30	Mexico	Pes300	Tunisia	Din0.800			
Greece	Dr120	Morocco	Dh6.00	Turkey	L600			
Hong Kong	HK$12	Neth	Fl3.00	UAE	Dh6.50			
India	Rup15	Norway	Nkr10.00	USA	$1.00			

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

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Madrid: González heads for ETA funds row, Page 2

TODAY:

New world in the making

By the year 2000, East Asian economies will have a gross national product greater than Western Europe's and as big as North America's. Today, in a 12-page FT Report, David Housego explains why world economic power is shifting towards the Pacific Rim

Showers dampen US grain prices but not the soil

BY DEBORAH HARGREAVES IN CHICAGO AND NANCY DUNNE IN WASHINGTON

SCATTERED showers quenched parts of the thirsty US farm belt yesterday but showed little sign of breaking the worst drought to strike the nation in half a century.

Grain prices plunged across the board for the second consecutive day as Chicago traders remained hypersensitive to any change in the weather.

The city's Board of Trade waited nervously for the 30-day weather forecast, due out from the US Agriculture Department yesterday afternoon, and expected to forecast little relief.

The drought had triggered soaring commodity prices in the futures markets, where, until Tuesday, grains approached record price levels. But these prices had already anticipated widespread damage to US crops, and traders have been quick to react to even slender prospects of improvement in the US harvest.

The farm lobby, however, is complaining that the Agriculture Department has been underestimating the drought damage so far.

"If it were to rain tomorrow you would have a 50 per cent reduction in harvest on wheat," said Mr Devon Woodland of the National Farmers Organisation. "You would have a 60 per cent harvest in corn, and you would have a 70 per cent harvest in soyabeans."

Even more serious, he said, was the 50 per cent reduction in the output of hay available to livestock farmers, who have been the first to suffer the effects of the disaster.

"The grass has been consumed – it's gone – and we have seen the first wave liquidation of cattle, and the second wave will come when we know for a fact that there is no more rain, and there is none in the forecast," he said.

In view of the November elections, pleas by farmers for Government assistance are falling on receptive ears in Washington.

"If you're going to have a drought, it had better be in a year divisible by four," said Mr John Baise of the American Soyabean Association.

His organisation has put forth a package of relief proposals including loans and subsidies to drought-struck soyabean producers and export subsidies next year.

US Government surpluses of soyabeans are depleting rapidly and are expected to disappear during July. Even before the drought, the Agriculture Department had predicted that, in September this year, farmer-owned stocks would drop to an historically low 155m bushels.

The soyabean group is worried about expanded oilseeds production by Brazil and Argentina in 1988-89. To maintain its grip on its markets, it is requesting changes in the US farm programme which would allow for an expansion of US soyabean planting next year.

The Agriculture Department has insisted that, despite the drought, grain export supplies will be sufficient, but it has quietly put on hold the controversial Export Enhancement subsidy programme.

Farmers, however, are keen to see the scheme continued and point to the 78m acres of land, fallow this year under set-aside and conservation programmes, which could be brought back into production next year.

Gorbachev intervenes as row erupts on pace and scope of reform

BY QUENTIN PEEL AND CHARLES HODGSON IN MOSCOW

A FURIOUS debate on the new-found openness and self-criticism in Soviet society erupted yesterday at the extraordinary conference of the ruling Communist Party, pitting reformers against conservatives, and forcing Mr Mikhail Gorbachev, the party leader, to intervene.

Behind closed doors in the Kremlin Palace of Congresses, sharp differences emerged among the delegations over the scale and pace of the reforms proposed by Mr Gorbachev, though none dared criticise the path of reform itself.

Harshly worded criticism was aimed at the most outspoken newspapers and magazines of the Soviet press, which have led the process of *glasnost* (openness) in exposing the "blank spots" of Soviet history – including the crimes of Stalin – and corruption of party officials in the Brezhnev years.

Yet they won equally passionate defence, including from Mr Gorbachev: "*Perestroika* will die should we give up advancing the process of *glasnost*, criticism, self-criticism and democracy," he said. "We have firmly embarked upon the road of *glasnost*, and we will follow it unswervingly."

Fairly full reports emerged from the closed session, given by the official newsagency Tass, Soviet television and briefings by the Communist Party's propaganda department.

They publicised unprecedented public differences between major figures in the party hierarchy. Dr Leonid Abalkin, a key economic adviser as director of the Institute of Economics of the Academy of Sciences, was accused of saying that *perestroika* was impossible to achieve in a one-party state.

They also reported that a Communist Party secretary from Moscow, Mr V. Belyaninov, was slow hand-clapped into silence for making a long-winded speech about well known achievements – exactly the sort of address which has dominated previous set-piece occasions of the ruling party.

The fact that *glasnost* – the word literally means "giving voice" – caused the deepest division was perhaps inevitable, given the role of the press in exposing corruption and attempting to rewrite the Soviet history books.

The onslaught was launched by Mr Vladimir Karpov, head of the writers' union, who accused some of his fellow authors of being "passionate fishwives" in their criticism. "Some people understand *glasnost* as permissiveness," he said, saying that some journals refused a right of reply.

Mr Filipp Popov, the Communist party leader from the Altai region, on the Mongolian border, continued, citing "distortions, absurdities, downright falsifications and insults." He highlighted an article in Ogonyok, a weekly magazine, which said that two conference delegates from Uzbekhistan were "bribe-takers."

Then Mr Karpov's deputy, Mr Yuri Bondaryev, was also given the floor, attacking authors "who write that everything was extremely bad in the past, and don't see any merits in our history," according to the version reported later by Mr Yuri Sklyarov, head of the party's propaganda department.

On economic reforms there was much wider acceptance of the need for decentralise and reduce the role of the central planning system in dictating factory production.

But Dr Abalkin was attacked for being too pessimistic about the achievements of *perestroika* to date, and for apparently saying that its success was impossible in a one-party state – an unlikely statement from a top communist, which did not appear in the first reports.

Dr Abalkin did criticise the idea that the General Secretary of the Communist Party should combine that role with the proposed new executive presidency of the Supreme Soviet, saying it

Continued on Page 16

Session report, Page 2

East European dispute grows

Romania's decision to close a Hungarian consulate has increased tension further in an unprecedented Warsaw Pact dispute. The move followed large-scale public protests in Hungary against Romanian policy towards resident ethnic Hungarians. Hungary last night was expecting counter-protests. Page 16; Conflict with Hungary, and Yugoslav reform, Page 4.

Rocard pledges to stimulate economic growth

BY IAN DAVIDSON IN PARIS

THE NEW French Government will pursue a policy of economic rigour to stimulate faster growth, Mr Michel Rocard, the Prime Minister, yesterday told the National Assembly.

He was making the first policy statement after a reshuffle which brought into Government several non-Socialist politicians and independent figures from outside politics. Key portfolios were left in the hands of the Socialists.

Mr Rocard's speech struck a moderate note without making grand commitments or setting hard-and-fast objectives.

"I have a reputation for preaching rigour and respect for the necessary economic and financial balances. But rigour will never be either my ambition or my submission: it is there to guide us towards a new rate of economic growth," he said.

The fight against inflation, which owed much to the moderation of wage increases, would not be relaxed.

Yesterday morning, however, the cabinet adopted a 1 per cent increase in the minimum wage, slightly greater than the formal rules would have required. This appeared to be a gesture to the trade unions, overruling the more austere inclinations of Mr Pierre Beregovoy, the Finance Minister.

Mr Rocard also announced the Government would next week unveil legislation for a wealth tax and for the creation of a minimum income, though he gave no details.

A wealth tax, abolished by the Chirac Government after it returned to power in 1986, became a commitment in the re-election campaign of President François Mitterrand. Mr Rocard stressed yesterday the tax would be "a contribution of solidarity, not a revenge against the rich." "It is a simple question of good sense," he said. "Too heavy a tax would lead to a flight of capital . . . A purely symbolic, and therefore purely ideological, tax would not produce the necessary revenues."

Newspaper reports suggest that Mr Rocard's preference is for a lighter tax than its predecessor, which was applied to fortunes of over FFr4m ($549,350) and at rates rising from 0.5 to 2 per cent.

The minimum income is expected to provide FFr2,000 per month to single people, and FFr3,000 to couples, and would be made available to as many as 500,000, people in extreme poverty.

Finally, Mr Rocard enunciated a policy firmly committed to the target of a single European Community market in 1992, yet tinged with a slight aftertaste of anxiety and nationalism.

"It disturbs those who fear they cannot adapt to it, who fear they have more to lose than to gain, those who are overcome by the poison of corporatism . . . I am anxious over the difficulties of harmonising taxes, but I am more happy to have a European passport.

"German and Dutch competition worry me, but I am more satisfied by the new prospect of having my sons complete their education at Genoa, Heidelberg, Salamanca or Cambridge," he said.

Dollar rises to year high despite intervention by banks

By Philip Stephens in London

THE DOLLAR yesterday shrugged off both a further round of sporadic intervention by European central banks and expectations of higher West German interest rates to rise to its highest level this year.

Sterling fell back against the dollar but Tuesday's ½ point rise in interest rates to 9½ per cent contributed to strong gains for the pound against other European currencies.

The impact of the intervention, again led by West Germany's Bundesbank, was blunted by the markets' perception that, for the time being at least, the US Administration is content to see the dollar remain strong.

The apparent lack of consensus among the Group of Seven nations on action to curb the US currency's rise was also reflected in the Bank of Japan's conspicuous absence from joint central bank action. The Bank of England, which had participated in the intervention on Tuesday, is thought to have declined to join yesterday's move.

Mr Kiichi Miyazawa, Japan's finance minister, said yesterday that he saw no need for intervention to stop the dollar's climb. His remarks were later qualified by Mr Satoshi Sumita, head of the Bank of Japan, who said the Japanese central bank would intervene if necessary, but not before Mr Miyazawa's words had been taken as a further sign to push up the dollar.

The US Federal Reserve, which has intervened sporadically this week, is thought by European officials to be concerned to prevent the dollar's rise from accelerating but to be fairly relaxed about a dollar/D-Mark rate of around DM1.80.

The US currency's gains yesterday heightened expectations that the Bundesbank will today raise its discount rate from 2.5 to 3 per cent.

In London, money market rates continued to point to a new rise in bank base rates to 10 per cent.

Sterling's gains against European currencies yesterday eased the immediate pressure for a further rise in base rates but the general view in the markets is that such a move will be needed in coming weeks to curb the growth of domestic demand.

The dollar closed in New York at DM1.8110, Y132.65, SFr1.5105 and FFr6.1405. The dollar closed in London at DM1.8290, up from DM1.8090, on Tuesday and at Y133.70, up from Y130.90. Sterling lost 1.25 cents against the dollar to close at $1.7065, but rose against the D-Mark to DM3.12.

Dollar strength worries Tokyo, Page 5

World News

Judge rules US cannot close PLO office at UN

A US federal judge ruled that the Reagan Administration cannot close the Palestine Liberation Organisation's mission to the United Nations in New York. Judge Edmund Palmieri said the Anti-Terrorism Act of 1987 did not require the closure of the PLO's permanent observer mission nor did the act's provisions "impair the continued exercise of its appropriate functions."

Senator Nunn out

Senator Sam Nunn of Georgia withdrew from consideration for the Democratic vice presidential nomination and said his decision was accepted graciously by presidential candidate Michael Dukakis.

Angola talks threat

Diplomatic efforts were being made to keep the Angola/Namibia peace talks on the rails after renewed fighting between South African, Cuban and Angolan forces in southern Angola. Accounts of Monday's clash remain contradictory. Page 16

Kohl may face inquiry

Helmut Kohl, the West German Chancellor, could face a public inquiry into when he knew about illegal plans by a state-owned shipbuilder to help South Africa build submarines. Page 2

Bhopal injunction

An Indian district judge issued an interim injunction barring Union Carbide from settling directly with any of the victims of the Bhopal gas disaster. The Indian government has made a $3.3bn compensation claim on behalf of the victims.

Rebel ordains priests

The rebel Roman Catholic Archbishop Marcel Lefebvre ordained 16 priests at Econe in Switzerland.

Jet fighters crash

Two Japanese jet fighters in a mock dogfight over the Sea of Japan collided and crashed into the sea. Two US jets on a training mission collided in West Germany, crashing into an alcohol factory.

NZ budget row

David Lange, New Zealand's Prime Minister, said errors in calculating the 1988-89 budget would mean an "unacceptable" NZ$ 3.2bn deficit. Page 5.

Soviet subs admission

A Soviet official confirmed Swedish allegations that Soviet submarines entered Swedish waters for reconnaissance purposes during the 1980s. Page 4.

Paris toll revised

French police revised the death toll in Monday's Paris train crash at the Gare de Lyon station downwards to 56 from 59.

Haiti minister released

Roger Savain, Information Minister in the deposed Haitian government of President Leslie Manigat, was released from jail.

Algeria-Libya union

Algeria and Libya are to hold parallel referendums in September on the proposed union of their two states. Page 5.

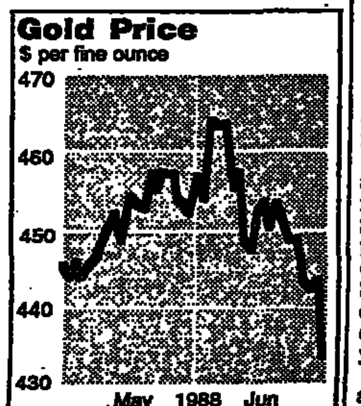
Business Summary

American Brands sued by Wall St investors

AMERICAN BRANDS, tobacco, spirits and financial services group, has been sued by four big Wall Street investors in junk bonds to prevent it transferring $1.5bn in bonds to a less credit-worthy company. Page 17

FIAT, Italian automobile and aerospace engineering group, is considering the sale of its 7.75 per cent voting ordinary shares in Westland, UK helicopter, aerospace and general engineering group, to United Technologies Corporation of the US. Page 16

GOLD bullion fell sharply on London markets by $9.50 a troy ounce to $433.75, the lowest level since March 4. Dealers cited falling commodity prices and the firm dollar as the main factors undermining the price of gold and other precious metals. Commodities, Page 28



LONDON: Blue chips saw little demand overall in a generally dull day's trading as leading institutions sat on the sidelines, assessing the implications of the rise in UK interest rates. FT-SE 100 index ended down 1.8 at 1,855.1. Page 36

TOKYO: The yen's further fall against the dollar prompted investment trusts to buy high-technology exporting stocks. The Nikkei average closed 209.24 higher at 27,607.33. Page 40

WALL STREET: The Dow Jones Industrial Average closed down 8.89 at 2,121.98. Page 40

DOLLAR closed in New York at DM1.8110, Y132.65, SFr1.5105, FFr6.1405. It closed in London at DM1.8290 (DM1.8090), Y133.70 (Y130.90), SFr1.5155 (SFr1.4960), FFr6.1625 (FFr6.0925). Page 29.

STERLING closed in New York at $1.7145. It closed in London at $1.7065 ($1.7190), DM3.12 (DM3.11), Y228.25 (Y225.00), SFr2.5850 (SFr2.5725), FFr10.5175 (FFr10.4725). Page 29

SIEMENS, West German electrical giant, won a KD15m ($53m) contract from Kuwait for construction of three high-voltage power plants.

OPEL, West German subsidiary of US General Motors, made profits of DM479m ($263m) last year after a loss of DM142m in 1986. Page 18

CREDIT LYONNAIS, third largest French bank, and GATX, US transport and financial group, are to create an aircraft leasing joint venture. Page 6

MOTOWN RECORDS, which brought black soul music into the main stream of US culture, was sold for $61m to a group of white Boston investment bankers and the MCA entertainment company. Page 17

UK unveils plan to end impasse on Official Secrets Act reform

BY JOHN HUNT AND MICHAEL CASSELL IN LONDON

THE BRITISH Government yesterday unveiled proposals aimed at ending the 20-year political impasse over reforming the widely discredited Section 2 of the Official Secrets Act.

Under the proposals, announced in the House of Commons by Mr Douglas Hurd, the Home Secretary, the "catch-all" provisions of Section 2 will be scrapped and replaced by a more tightly drawn definition of six areas of information where disclosure will be a criminal offence.

The move means it will no longer be an offence to disclose any official information, however trivial, without authority.

The proposals were generally welcomed by parliamentary members of the ruling Conservative Party, although some backbenchers attacked Mr Hurd for planning to liberalise the secrecy laws in some areas while tightening them up in others.

Mr Richard Shepherd, the Tory backbench member of parliament whose own attempt to reform Section 2 failed earlier this year, attacked the proposals as "illiberal and repressive." In an angry speech, he claimed the proposals would extend the law into areas previously not affected, such as publication abroad of material from Britain.

Mr Roy Hattersley, Labout Party shadow Home Secretary, described the proposals as draconian but said that, in respect of the security services,there was still a "catch-all" provision. He claimed "many of the oppressive and authoritarian acts perpetrated by the Government have been justified by invoking the name of the security services."

There was a widespread welcome for the Government's decision to abandon proposals for a controversial system of ministerial certification under which ministers would testify that the disclosure of information was likely to cause serious injury to the national interest.

The proposal was largely responsible for the failure of the Tories' attempt to reform the secrecy laws in 1979. Mr Hurd said the Government was now putting its trust in the impartial determination of a jury.

He said the proposals represented a considered attempt to find the "break the deadlock" surrounding official secrets legislation and formed the basis for a wide measure of agreement in replacing Section 2. The Government intends to introduce revising legislation in the next session of parliament.

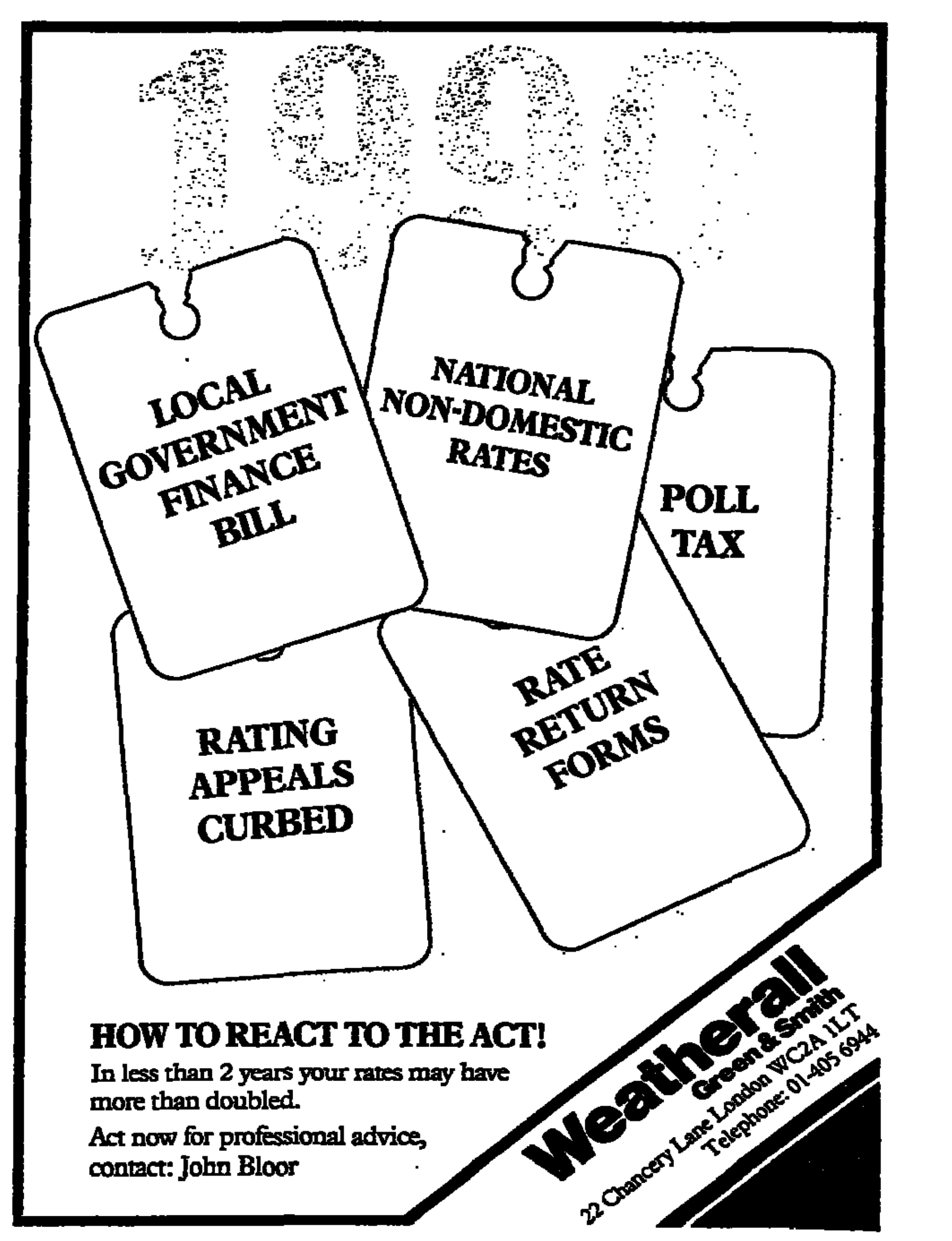
The categories which will be protected by the criminal law are security and intelligence, defence, international relations, information obtained in confidence from other governments or international organisations, information useful to criminals, information about Government interception of telephone calls, mail and other forms of communication.

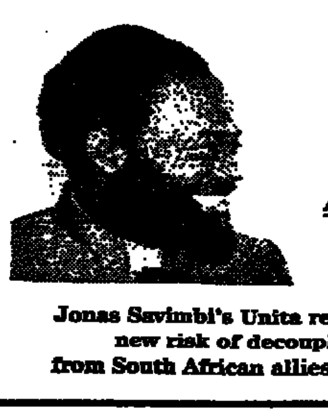
Certain classes of information, such as cabinet documents, advice to ministers and economic information will no longer be included in the categories protected by the criminal law.

In most cases, where members of the general public or civil servants are charged, the prosecution will have to prove to the

Continued on Page 16

Background, Page 8; Stronger guard on fewer secrets, Page 14; Editorial comment, Page 14





ANGOLAN TALKS HANG IN BALANCE AFTER CLASH ON BORDER

Jonas Savimbi's Unita rebels face new risk of decoupling from South African allies, Page 16

ROLE OF PARTY AT HEART OF DEBATE

Gorbachev leaves leadership issue in doubt

BY QUENTIN PEEL IN MOSCOW

THE PLANS for separating the functions of the ruling Communist Party and the Soviet state, as spelt out by Mr Mikhail Gorbachev at his extraordinary party conference in Moscow, still appear to beg key questions, political analysts say.

He has deliberately left open the question of whether the leader of the ruling party should be the same person as the powerful president of the Supreme Soviet, admitting that views are deeply divided.

Most observers believe the presidential job is designed for Mr Gorbachev himself – but that he cannot afford to give up the party leadership unless he is convinced of the success of his own reforms in restraining its executive powers.

At the heart of the debate remains the role of the ruling party and how, without any external political opposition, it can fail to become a dominating force on all other arms of state and government.

Mr Gorbachev's proposals to bolster the powers of the elected soviets do not, in themselves, appear to go much further than the law states at the moment. He is really proposing that they use the powers to oversee legislation which they are granted.

The differences are not so much constitutional as practical: he is calling for a much smaller, streamlined Supreme Soviet, which would meet much more frequently, with its two chambers given much more clearly defined functions.

One would consider all laws affecting the individual republics, and relations between the nationalities – an acutely sensitive issue in the light of rising nationalism in many outer regions.

The other would consider all-union legislation, foreign affairs and the like.

At the lower level of soviets, in cities and districts, he wants them to have bigger budgets - which could certainly give them more real power.

The other key changes in the authority of the soviets would relate to their election procedure, and their bureaucracies. The former, if it eventually became the norm to have multiple candidate elections, should enhance the prestige of the assembly.

Mr Gorbachev also wants to curb the power of their political executives, the secretariat which in effect dictates all the decisions which the deputies then rubber-stamp.

Here he has proposed a deal which is both ingenious, if it works, and also constitutionally confusing: that the first secretary of the Communist Party at the relevant level – city or district or region – should present himself for election as chairman of the soviet, and abandon his present post as an ex-officio member of the executive committee.

This would do two things, he hopes. It should enhance the authority of the elected body above its own bureaucracy, and mean that party secretaries had to face two democratic hurdles to keep office. If they were rejected by the soviet, Mr Gorbachev says, the party should "draw the necessary conclusion".

However, the implication that a party first secretary can somehow almost by right expect to be chairman of the soviet suggests to some a denial of the very democracy Mr Gorbachev is seeking to revive.

Mikhail Gorbachev with fellow Poliburo members Yegor Ligachev, left, and Alexander Yakovlev, centre, at the party conference yesterday

Delegates fear 'backlash' over price rises

BY QUENTIN PEEL

PLANS to reform the fixed price system for basic foodstuffs in the Soviet Union could cause a big popular backlash against *perestroika*, speakers at the Communist Party conference warned yesterday.

Delegates said this most sensitive aspect of Mr Mikhail Gorbachev's economic *reform* programme must be tackled with utmost care.

"No mistakes can be made in this field," said D K Motorny, chairman of the Kirov farming co-operative in the Kherson region of the Ukraine. "People assess the results of *perestroika*, above all, by changes in food supplies and the satisfaction of their vital needs."

There is far more popular support for the other key plans which the Soviet leader is pushing most energetically, including the country-wide introduction of "contract leasing" of farmland by individuals and co-operatives, and a very rapid growth of co-operative enterprises both in light manufacturing and service industries, and decentralisation of decision-making to individual enterprises.

Price reform was the issue which Mr Gorbachev tackled head-on in his speech, and yet it is the one where he is seeking to do what many economists regard as physically impossible: to raise the very low prices of basic goods, and yet to do so without any effect on living standards.

"Without a pricing reform we shall not be able to create normal relations in the economy," he said, citing as examples the wasteful use of energy, failure to stimulate investment in new technology, and the soaring state budget deficit caused by subsidies to loss-making enterprises.

Then he launched a broadside against the growing murmuring in the party and the press that economic reform can somehow be carried out without real price increases.

"Pricing reform cannot fail to affect retail prices," he said. "Today, the retail price of many food products, notably that of meat and milk, is considerably lower than the actual cost of producing them. The state is compelled to cover this difference. That is not a normal situation. It undermines the incentives for producing these products and gives rise to a wasteful attitude, especially towards bread.

"We know all this perfectly well, comrades. It is absolutely necessary, therefore, to resolve this problem no matter how difficult it may be and no matter what doubts and fears it may create, at first glance."

Then he made his proposal: that all the money spent by the state on price subsidies should be "handed over in full to the population as compensation."

Mr Alexander Yakovlev, key member of the politburo responsible for party propaganda, refused to be drawn on how that might work – whether through wage increases paid through enterprises, or as some form of government grant.

Moreover it is not clear whether Mr Gorbachev meant that the state would make a once-only compensation for price increases, or continue to do so for an indefinite period.

What is clear is that the whole issue is being agonised over within the government, and a national debate has been promised before the price reform is introduced – by the time of the next five-year plan in 1990.

Far more popular was the party leader's condemnation of the excessive use of "state orders" to maintain central control over the production of individual factories – and his promise that a government decision to restrict the use of such orders will soon be issued.

"What is most intolerable is that enterprises are being compelled by means of state orders to manufacture goods which are not in demand," he said. "This is wholly contrary to the sense of the reform, it amounts to the conservation of management methods that have driven our economy into a dead-end."

The delegates: who they are

NEARLY two thirds of the delegates are elected members of party bodies and among them are 627 general secretaries of republican, regional and local parties.

The committee examining the credentials of the 5,000 delegates said almost a third were industrial and one sixth farm workers. A quarter are women.

Among the delegates, all of whom were approved, were scientists, writers, artists and managers of state enterprises or farms. There were also 43 journalists, elected in recognition, Tass said, of the role of the press in promoting Mr Gorbachev's reforms.

The conference is said to have asked the committee to look into allegations in Ogonyok magazine that some delegates from Uzbekistan were under investigation for corruption.

The head of the Uzbek delegation said he was unaware of any wrongdoing.

Survey shows privileges for the favoured few rankle with public

BY CHARLES HODGSON IN MOSCOW

LONG-FESTERING public grievances over the special privileges enjoyed by Soviet Communist apparatchiki have been brought to the surface by the party conference.

As the conference debate got underway, an opinion poll revealed that almost all those questioned felt that ordinary party workers and bureaucrats had no right to special treatment.

However most respondents accepted that senior political figures, such as politburo members, and military personnel deserved their special privileges on merit. They also considered justifiable special treatment for pensioners, invalids, single mothers and large families.

The poll, carried out by the reforming weekly, Moscow News, revealed the depth of opposition to the system of privileges for party workers, which include well-equipped flats and country dachas, official cars, access to western goods at special closed shops and reserved seats at cinemas and theatres.

Moscow News said that one in three letters it received about the party conference dealt with "social justice" and the privilege system. Other newspapers, including the party daily Pravda, have also aired views on both sides of the argument recently.

Sensitivity to public feeling on the issue has prompted some party organisations at the conference to propose an end to, or a reduction in, special treatment.

One central committee member told the conference that reports of "fantastic" privileges were being deliberately exaggerated and called for open discussion in the press to set the record straight.

The secrecy surrounding who gets what appears to rankle almost as much as the privileges themselves in a society where working the system to the best advantage is widely accepted. Some of those questioned appeared unaware of the benefits enjoyed by party workers, trade unionists, and diplomats.

The poll showed particular opposition to the network of party shops, which stock luxury goods not available to ordinary citizens, and the easy access to entertainment and books.

Over two thirds also objected to party workers enjoying well-built flats in prestige areas and being able to rent state dachas or build their own country homes close to towns.

Hospitals and sanatoria exclusively for use by party leaders also caused particular discontent. Moscow News concluded that people were not so much irritated by the existence of special privileges, but that by virtue of them party leaders had no real idea about the extent of problems facing the man in the street.

The authorities have already reacted to public unease about privileges by restricting access to closed shops and cutting down on the private use of official cars. Ironically, the use of official cars was deemed the least objectionable privilege by the poll respondents, who were almost evenly divided on the issue.

Party chiefs call for ministry to handle nationalist conflict

BY QUENTIN PEEL

THE SOVIET Union should establish a ministry to deal with its increasingly tense inter-ethnic relations, and change the constitution to provide for more national autonomy, the conference was told yesterday.

The proposals were made by three party leaders in republics facing an upsurge in nationalist sentiment – Armenia, Azerbaijan, and the Baltic republic of Latvia.

However there was no overt support for the boundary change demanded by Armenians for the mountain enclave of Nagorno-Karabakh, in Azerbaijan, which wants to join neighbouring Armenia - a move ruled out by Mr Gorbachev.

There was confirmation that the situation in the enclave remains tense, as it does in Armenia itself. Mr Suren Arutunyan, the Armenian party leader said: "We have not yet managed to normalise the situation in the republic. It continues to remain tense. It is now urgently necessary to elaborate new political thinking on the nationalist issue."

The two new leaders of Armenia and Azerbaijan, appointed only weeks ago when the old leaders were unceremoniously dismissed, pledged their determination to resolve the rivalry between their two republics, in spite of recent decisions in which they have taken opposite sides.

Mr Abdurakhman Vezirov, the party leader in Azerbaijan, blamed the failure of the ruling party in the "years of stagnation" for the revolt in Nagorno-Karabakh, where a month-long general strike has paralysed economic activity, caused food rationing, and brought vigilante groups onto the streets. It is not clear whether an attempt to call off the strike this week has succeeded.

Mr Vezirov said there was a need for constitutional change, and a new national body such as a ministry, to mediate in such disputes. The proposal was said by Mr Yuri Sklyarov, the party propaganda chief reporting the conference debate, to have been supported both by Mr Arutunyan and Mr Boris Pugo, party chief in Latvia.

Both Mr Vezirov and Mr Arutunyan blamed the resurgent nationalism on economic failure – the poor conditions which persisted throughout the Brezhnev years, they said – and arrogant party handling of the Nagorno-Karabakh demands, simmering since the enclave was made part of Azerbaijan in 1923.

"It would be sacrilegious to say perestroika and glasnost are to blame," Mr Arutunyan was reported to have said.

As for Mr Pugo, whose party organisation is facing a strong nationalist movement seeking more independence from Moscow, he rejected outright nationalism, but pleaded for more budgetary authority, and cultural independence, to be granted by the capital.

A major theme in Mr Gorbachev's conference address was the need for more devolution of economic and political power from Moscow, which could go some way towards meeting nationalist demands, although it cannot resolve the clash between Armenia and Azerbaijan. But the party leaders there said it was important that the debate between their republics could now be conducted in the open.

Overhaul of Soviet legal system regarded as a party key issue

BY CHARLES HODGSON IN MOSCOW

PLANS for a radical overhaul of the Soviet legal system to ensure independence of the judiciary and strict presumption of innocence for suspects form one of the key issues to be decided at this week's extraordinary Communist Party conference.

The proposals, outlined by Mr Mikhail Gorbachev in his keynote speech to delegates, also call for better training and pay for lawyers and concentration by the police on crime prevention and maintaining law and order, rather than investigation.

Mr Gorbachev said that the introduction of his economic and social reform programme had "thrown into bold relief the conservatism of our legal system". Many legal instruments currently in force hindered social development.

Many of the proposals put forward by the Soviet leader have been under public discussion for some months. The criminal code has been amended to give citizens right of redress against unlawful actions by officials. Further legislation extending the right of appeal to official bodies as well as individual bureaucrats, and covering press and information, freedom of conscience and religious association are under consideration.

The new reforms, for which Mr Gorbachev is now seeking party approval, should cover a range of legal standards, particularly those dealing with socialist ownership, planning, economic and labour relations and fiscal and pension rights.

"In renewing our legislation we should unswervingly observe the principle that everything not prohibited by law is allowed," he said.

One of the main obstacles discouraging people from taking up new opportunities opened by Mr Gorbachev's reforms, particularly in starting up co-operative or individual businesses has been the difficulty of obtaining approval from the authorities. Applicants have been turned down in certain sectors not specifically mentioned in the new legislation.

'No government or party body or individual is above the law'

Stiffer penalties should be imposed for contempt of court and interfering with the course of justice, and prejudice and bias against defendants should be ruled out by strict observance of the principle of "innocent until proven guilty", Mr Gorbachev said.

The state prosecutor's office, which has tended to conduct preliminary investigations, should revert to its intended role of supervising the interpretation and application of the law by judges. Criminal investigations should mostly be carried out by the Interior Ministry investigation service, leaving the police, or militia, to concentrate on crime prevention

A special programme for training lawyers and legal experts was required, Mr Gorbachev said, particularly as under new self-management rules in industry, enterprises and government ministries were increasingly operating on a contractual basis in links with each other.

On the wider issue of civil rights, Mr Gorbachev said that his proposals for decentralising decision-making to regional, local and district elected bodies and holding multi-candidate elections by secret ballots should ensure that citizens played a greater role in the nation's political life.

"We cannot accept a slipshod attitude on the job, poor discipline at work, inertness and sponging on society."

Mr Gorbachev also called for freer expression of public opinion. Freedom of opinion was "a real guarantee that any problem of public interest will be discussed".

He said: "There is no need to fear the novel, unconventional character of some opinions, there is no need to overreact and lapse into extremes at every turn of the debate."

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Emissions rule may raise car prices

BY TIM DICKSON IN BRUSSELS

THE PRICE of some new cars is expected to rise 4-5 per cent after a decision yesterday by European Community Environment Ministers to halve exhaust emissions by the early 1990s.

The surprise agreement to endorse the European Commission's original proposal puts into place the second stage of the Community's programme for cleaning up small cars (less than 1.4 litres) and follows last year's accord on emission standards for large and medium-sized vehicles.

It also completes a notable six months for the EC Environment Council, in which new rules have been set for sulphur dioxide from large combusion plant, the Montreal Agreement on action to reduce the production of chlorofluorocarbons(CFCs) has been ratified, the Seveso directive against accident hazards has been tightened up, and new limits have been set for dangerous substances in water.

Yesterday's so-called "common position" by Environment Ministers on small cars was only reached after an ill-tempered meeting in Luxembourg was prolonged by the persevering EC Environment Commissioner, Mr Stanley Clinton Davis.

The problem was to find a way through the "blocking minority" of Denmark, the Netherlands, West Germany, and Greece, most of whom wanted to hold out for tougher standards.

In the end, Dr Klaus Topfer, the West German Environment Minister who was also chairman of the meeting, agreed to compromise, provided the door for stricter amendments was kept open.

Under yesterday's deal, cars below 1.4 litres will have to meet emission standards of 8 grammes per test cycle for a combination of nitrogen oxides and hydrocarbons and 30 grammes per test for carbon monoxide by 1992 in the case of new models (and by 1993 in the case of all new vehicles).

This compares with the "first stage" (to be implemented by 1990/91 of 15 grammes and 45 grammes respectively, with a specific limit of 6 grammes for nitrogen oxides.

The final agreement yesterday was a compromise between those countries such as Britain and France with large motor manufacturing plants which had earlier been holding out for 12 grammes of hydrocarbon and nitrogen oxide, and the hard-liners pushing for 5 grammes.

Mr Ed Nijpels, the Dutch Environment Minister, argued for the stricter norm.

Experts say that modern engine technology is sufficient to meet the new standards, but some car makers may be prompted to introduce the catalytic converter.

● Yesterday's environment council was unable to agree a declaration on the export of toxic wastes, after a Dutch demand that the Community should ban exports to certain developing countries proved unacceptable to the UK.

The UK's position is that this is a legitimate business, provided it is carefully controlled and the importing country has given its consent.

Ministers effectively encouraged the Commission to continue negotiations under the UN Environment Programme for conclusion of an international convention on toxic wastes.

Britain fears aerospace plans could irk US

BY WILLIAM DAWKINS IN LUXEMBOURG

EUROPEAN Community Research Ministers yesterday gave a cool response to outline plans to subsidise aerospace technology. Britain fears the plans might annoy the US, while Ireland is concerned that its neutrality could be compromised.

Paris and Bonn also expressed varying degrees of reservation.

The ministers did, however, give the go-ahead for trans-frontier research ventures worth Ecu 1.76bn (£1.1bn) over the next four years.

They sank their differences over the allocation of Ecu 735m for research into thermonuclear fusion, potentially cleaner and cheaper than conventional nuclear fission. The differences had threatened to hold up work at a joint European scientific centre in the UK.

Britain scaled back its earlier demands that a large portion of the cash be held back until after 1992.

However, reservations were expressed over a European Commission plan to spend Ecu 80m over the two years on cross-border research into high- technology aeronautical materials and engines.

Mr Alan Clark, UK Industry Minister, said the scheme appeared like "science fiction" and that the Commiussion should make better use of existing reserach projects rather than dreaming up new ones.

Brussels aims to follow the test phase with a much larger five-year programme worth Ecu 500m-Ecu 1bn, and sees it an attempt to compensate EC civil aircraft makers for the huge defence spin-offs available to their US counterparts.

Ireland fears the scheme might compromise its neutrality because of the spin-offs it could provide for military aeronautics. "If the Commission wants to get involved in these areas, it should be more aware of people's sensitivities," said an official.

Britain, meanwhile, is worried that the plan might look to the US like a new subsidy to Airbus and so re-open the lingering transatlantic row over aid for the four-nation consortium, just as that dispute seemed to be settling.

The technology projects accepted yesterday include Ecu 700m for the Community's much-criticised Joint Research Centres, which specialise in nuclear safety and environmental studies. The four centres are to undertake more outside research and improve their management under yesterday's accord.

Ministers also approved projects to apply information technology to learning methods, to promote computerised road traffic control, boost EC work on biotechnology, and to encourage more cross-border co-operation between research scientists.

Community divided over funding for Eureka projects

BY WILLIAM DAWKINS

PLANS FOR the European Community to help out cash-starved international research projects in Eureka, the main European rival to its own technology programme, yesterday opened up divisions between EC governments.

A meeting of the EC's 12 research ministers was unable to decide on European Commission proposals to earmark cash and technical help to boost links with Eureka, the French-inspired collaborative research effort.

Eureka was launched three years ago by 17 European Governments as a response to the US Star Wars initiative, but is now short of cash and producing fewer results than expected, say Commission officials.

Britain,Ireland, the Netherlands and the southern member states were yesterday cautious over extending already stretched Commission research cash for Eureka projects that - despite their problems - are designed to be much nearer to producing marketable products than is the case with their strictly early stage EC counterparts. "We would want to see a clear distinction maintained," said an Irish official.

West Germany and France - the main protagonists in Eureka - and Denmark were keen to help on the grounds that both programmes cover similar areas like information technology, telecommunications and industrial automation.

It emerged yesterday that the Commission itself is split, between Mr Jacques Delors, its President, who wants to build close links between EC and Eureka projects, and a more cautious Mr Karl-Heinz Narjes, the Industry Commissioner.

"We don't want to get involved in the grey area too near the market", said Mr Narjes.

Eureka has so far attracted Ecu 4bn(£2.64bn) in public and private contributions since its formation in 1985. That compares with the EC's own Ecu 5.2bn research budget - much of which is topped up by a 50 per cent contribution from the industrial beneficiaries - for the next four years.

Bundesbank still seen likely to raise rate

By Andrew Fisher in Frankfurt

THE CONVICTION strengthened in financial markets yesterday that the Bundesbank would raise the West German discount rate at today's council meeting, despite remarks by one of its top officials saying such a move was not a foregone conclusion.

The general expectation is for a rise to 3 per cent from the 2.5 per cent at which the rate has stood since last December.

In anticipation of an increase - some dealers expect an increase to 3.5 per cent - call money rates yesterday inched above the 4.5 per cent Lombard emergency funding rate.

Markets were temporarily confused by the comments of Mr Claus Koehler, a member of the Bundesbank directorate, in a radio interview that a decision to raise the discount rate could not be predetermined and depended on various factors such as exchange rates.

He later said his comments had not been intended to indicate that the Bundesbank would not put up the rate; the decision was still open.

Stop-gap powers on farm prices

THE EUROPEAN Community's executive commission said yesterday it would assume stop-gap emergency powers to fix certain farm prices until Greek objections to a new package are settled, Reuter reports from Brussels.

An official said regulations would be published tomorrow and would apply for a month, principally on cereals and beef.

The official said the Commission aimed "to ensure the smooth functioning of the markets" in the absence of a package deal setting guaranteed prices in 1988-89 for the Community's 10m farmers.

Greece contended in talks this week that a proposed package did not do enough to help its farmers, among the EC's poorest.

President Mitterrand calls an end to the photo session of the new French Government

France boosts minimum wage

BY GEORGE GRAHAM IN PARIS

THE remodelled government of Mr Michel Rocard has taken one of its first measures with a modest 1 per cent boost to the French minimum wage.

The minimum wage, or Smic, will rise by 28 centimes to FFr 28.76 an hour or FFr 4,860.44 (£462) a month.

The 1 per cent increase announced yesterday is mostly made up of 0.6 per cent of automatic indexation, but the government has added an extra bonus for the first time since 1984.

Around 1.5m people, mostly women, are affected by the Smic, which has only kept pace with other salaries in the past two years after gaining ground under the socialist governments between 1981 and 1985.

Mr Rocard said yesterday that the increase was necessary to maintain the purchasing power of the lowest paid.

"It would not have been conceivable for a country like France to pursue its development with a fair sharing, nor for our economic growth to be achieved at the expense of the worst paid employees," he said.

The Prime Minister added that no company manager could complain that the small increase accorded was a sign of "laxism".

The Confederation Nationale du Patronat Francais, the employers' federation, has complained about the repeated revaluations of the Smic, and has asked for a move to a single annual review.

The Communist CGT trade union, on the other hand, demands a Smic of FFr 6,000.

● France's foreign trade deficit shrank in May to FFr 1.4bn (£134m) after seasonal adjustments, the trade ministry announced yesterday.

The May figure, a quarter the size of the shortfall in May 1987, takes France's commercial trade deficit for the first five months of this year to FFr 8bn after seasonal adjustments, compared with FFr 15.5bn in the same period of 1987.

Exports rose by 3.4 per cent from the previous month to FFr 81.9bn while imports rose only 2.2 per cent to FFr 83.4bn.

Kohl faces inquiry over submarines

BY DAVID GOODHART IN BONN

MR HELMUT KOHL, the West German Chancellor, faces a possible public inquiry into allegations that he lied to a parliamentary committee.

Mr Otto Schily, the lawyer and prominent Green MP, yesterday lodged a formal request for an inquiry with the public prosecutor's office. The charge is that Mr Kohl knew in the summer of 1984 of plans by a state-owned German shipbuilder to provide the South African Government with help in the construction of submarines. Last year he told a Bundestag committee investigating the deal – in breach of German law and a UN embargo – that he did not hear about it until 1985.

It seems unlikely that Mr Schily has gathered enough evidence to persuade the public prosecutor of the case for an inquiry and this is unlikely to turn into a German Irangate or Westland affair. However yesterday Mr Kohl's office was taking the challenge seriously enough to issue a strong denial.

Mr Schily has tried unsuccessfully twice before to force Mr Kohl to face inquiries, and it seems likely that publicity is the main advantage of trying again. But Mr Schily is a respected lawyer who played a key role over the Flick scandal.

He claims that new evidence in the submarine case has come from the photocopy of a letter sent to the Chancellor by Mr Franz-Josef Strauss, the Bavarian Prime Minister, which was found by members of the new Social Democrat Schleswig-Holstein government.

EUROPEAN NEWS

Gonzalez heads for clash with Spanish courts

BY PETER BRUCE IN MADRID

THE SPANISH Government was yesterday heading for a confrontation with the judiciary after the Director General of police, under orders from the Interior Minister, refused to tell a Central Court judge in Madrid whether a secret Interior Ministry fund had been used to finance clandestine operations against the Basque terrorist organisation, Eta.

The decision to turn down a request for information, announced by Mr Jose Barrionuevo, Interior Minister, on Tuesday, drew sharp fire from the judge and the normally sympathetic national newspaper, El Pais, which called it "a new act of disobedience by the executive towards the judiciary".

The case revolves around the activities of a shadowy organisation called the Grupos Antiterroristas de Liberation (GAL), which has carried out bombings and shootings against Spanish Basque exiles, mainly in France.

The French Government has recently asked for the extradition of a senior Basque policeman, Superintendent Jose Amedo, on charges of organising the attacks.

Mr Amedo, named as the brains behind GAL by a number of members caught by the Spanish, French and Belgians, claims he is being framed by lawyers.

The Madrid judge, Mr Baltasar Garzon, had asked the Government how Mr Almedo managed, on an official salary of Pta 150,000 a month, to spend Pta 16m in the past few years. Both Mr Amedo and his father have claimed the money was inherited.

GAL is thought to have killed 23 people, and the first important arrests were made after an attack on a bar in Bayonne, France, in 1986. El Pais claimed the instruction not to answer questions about the secret fund had come from Prime Minister Felipe Gonzalez.

Mr Gonzalez' socialist Government, and Mr Barrionuevo in particular, have come under fire this year for failing, apparently, to make any progress towards stopping the war with the Basque separatists. Talks with Eta leaders exiled in Algeria do not seem to have made much headway, and Eta activists have continued to kill people. A senior Spanish property developer, Mr Emiliano Revilla, was kidnapped 125 days ago and has still not been found.

Police have angered residents in Madrid's suburbs by staging large-scale searches.

Mr Gonzalez is in a difficult position. If the Interior Ministry has been funding GAL's secret and illegal war on Eta, Madrid risks alienating France, on which it has relied for help in containing the Basque threat in the past three years. The French were instrumental in major arrests of Eta members last year.

The issue also threatens to cloud Franco-Hispano relations generally. Madrid takes over the European Community presidency next January and is supposed from now to be working together with Paris on a wide range of policy issues, as the French will succeed the Spanish presidency. In addition to the French request for extradition, Interpol has also put out a warrant for Mr Amedo's arrest. The Portuguese Government is also investigating allegations that the superintendent recruited GAL mercenaries in Lisbon.

The Interior Minister, while admitting the existence of the secret fund, has told the court in writing that it is not possible to trace the movements of cash from the fund and that no one in particular is responsible for overseeing it. The ministry claims the judge's call for details about the use of the funds cannot be legally justified.

● A Basque separatist guerrilla jumped to his death from an apartment building when cornered by police yesterday, Basque provincial government officials said, Reuter reports from Madrid.

Miguel Arrastia Aguirre, 28, jumped 30 ft and died in hospital in nearby San Sebastian.

Group says it killed US attaché in Greece

By Andriana Ierodiaconou

A TERRORIST group with a thirteen year record of killings of Americans and Greeks, has claimed responsibility for the assassination on Tuesday of the US defense and naval attaché in Athens.

The attaché was killed driving to work, when a parked car rigged with explosives blew up alongside his own. In a manifesto delivered to the mass circulation Athens daily Ethnos the November 17 group said the killing was intended to protest the US role in Turkey's 14 year occupation of part of Cyprus as well as what it considers to be an unacceptably conciliatory Greek government policy towards Turkey.

Greeks blame the US for tolerating the 1967-1974 junta, whose short-lived coup in Cyprus in 1974 led to the Turkish invasion and occupation of part of the island republic.

The key question haunting the Greek authorities one day after the killing was how November 17 had been able to stage undetected a sophisticated car-bomb operation within a stone's throw of the US attache's guarded residence.

Italy debates F-16 transfer

THE Italian parliament yesterday began debating relocation in Italy of US F-16 fighter-bombers from Spain in face of fierce opposition from left-wing opposition parties, Reuter reports from Rome.

Italy's five-party governing coalition, which has a clear parliamentary majority, approved the transfer of the 72 Nato aircraft earlier this month but the decision rests with parliament. The vote is expected today.

Parliamentary sources said the vote was a foregone conclusion since the coalition was firm on the issue.

GROWING TENSION OVER FATE OF MINORITY IN TRANSYLVANIA

Romania's restrictions stir conflict with Hungary

BY LESLIE COLITT IN EAST BERLIN

AT THE heart of the escalating tensions between Hungary and Romania lies Transylvania, a fertile region - now Romanian but formerly Hungarian - which for centuries was a bone of contention between the two nations.

Most of the nearly 1.7m ethnic Hungarians in Romania, Europe's largest minority, live in the central plateau of Transylvania. Symbolically ringed by tall mountains separating it from the rest of Romania and Hungary, Transylvania has emotional significance for both countries.

Romanians call it Ardeal. They maintain that it was part of ancient Dacia conquered by the Romans. The Hungarians call it Erdely, and have long considered the region as a cradle of Hungarian culture. It became part of the kingdom of Hungary in 1003.

Romania's autocratic leader, Mr Nicolae Ceausescu, is determined to assimilate the large Hungarian minority into the Romanian population.

Last month he forbade Hungarian language publications in Romania to use the ancient Hungarian names of Transylvanian cities.

By tightening cultural restrictions on the ethnic Hungarians, Mr Ceausescu prompted massive criticism in both Hungary and the West, where Romania is now regarded as Europe's foremost violator of minority rights.

The tragedy of the ethnic Hungarians, who make up nearly 7 per cent of the total Romanian population, is that by forcing them to become part of a homogenious Romania, Mr Ceausescu is turning the tables on history.

Ceausescu: uneasy task

When Transylvania was reunited with Hungary in 1866, a brutal Magyarisation began of the Romanian population which still touches a raw nerve among Romanians. As Romanians see it, feudal Hungarian land owners in Transylvania terrorised the poor and landless Romanians.

It was the collapse of the Austro-Hungarian Empire in 1918 that led to the transfer of Transylvania to Romania under the Treaty of Trianon in 1919. But to most Hungarians between the two World Wars, Trianon was as synonymous with betrayal.

Hungary under the Regent, Admiral Miklos Horthy, was awash with jingoist talk of "liberating" Transylvania

President Ceausescu claims a similar anti-Romanian mood is again being worked up by the Hungarian leadership. But Hungarians have been chastened by their experience in the Second World War when Adolf Hitler gave them Transylvania to hold - for a brief five years. They realised the land of their fathers less than 200km from Hungary's eastern border cannot be regained.

Nevertheless, the Hungarian Consulate in the Transylvanian city of Cluj-Napoca, which has just been ordered closed down by Romania, continued to use the city's Hungarian name, Kolozsvar, when stamping visas into passports.

Visitors to Cluj-Napoca find themselves transported into a Hungary of the past. The city's many Hungarian Catholic and Calvinist churches are packed with worshippers while the Romanian Orthodox Cathedral stands nearly deserted. The city even has a Hungarian opera house along with a Romanian one.

Remarkably, ethnic Hungarians in Transylvania, many of whom are farmers, also make up a considerable part of the professional class. Romanians elsewhere in the country, who endure the worst austerity in Eastern Europe, envy the Transylvanian Hungarians for their higher standard of living.

But this was not enough to stop more than 10,000 ethnic Hungarians from leaving Romania this past year and seeking asylum in Hungary for political and economic reasons.

Yugoslavia 'in need of urgent reforms'

YUGOSLAVIA is in need of urgent courageous reforms to overcome its deep economic and social problems and any delay will be fatal, the country's communist leader said yesterday, AP reports from Belgrade.

Mr Bosko Krunic, speaking at a session of the party's Central Committee, indicated that there will be no change in the one-party rule and that the system will be defended "by all means, including legal measures."

Delegates at last month's national party conference criticised the ruling Central Committee and demanded replacement of those who have led the country into its worst crisis in history.

Yugoslavia has been grappling with a $21bn foreign debt and unsuccessful attempts to chop off its 170 per cent inflation. Growing labour unrest is seriously threatening Communist rule in the country.

"Courageous changes, without sentimentality or illusions, are imperative, and any delay would be fatal," Mr Krunic said.

He said the economic changes should include an urgent introduction of a market-oriented economy, but added that the state would continue to exercise a measure of control.

"If we allow the uncontrolled functioning of the market, we would face even greater difficulties," Mr Krunic said.

Moscow admits violations by subs

By Sara Webb, Stockholm Correspondent

A SOVIET government official has admitted that Soviet submarines were used for reconnaissance purposes in Swedish waters during the 1980s, confirming what the Swedish Defence Ministry has long alleged but has been unable to prove conclusively.

In an interview with Aftonbladet, the Swedish union-controlled evening paper, the unnamed official said Soviet submarines were used to gather information about the Swedish coastline and sea bed in the Baltic and Gulf of Bothnia because of doubts over whether Sweden would remain neutral in event of another war.

"We suspected that Sweden would be forced into Nato or Nato's strategy" in the event of East-West conflict, he said. It was therefore necessary to obtain information about Swedish waters well in advance.

These violations of Swedish waters occurred up to 1985 when Mr Gorbachev came to power, the official told Aftonbladet. He said no further violations had taken place.

But according to Swedish defence staff, foreign submarines have operated in Swedish waters throughout the 1980s.

Anthony McDermott explains why Norway has started to cut down on defence

Thinner line on Nato's northern flank

THE NORWEGIAN government this month agreed a five-year defence plan markedly different from previous policies of Nato's northernmost member.

The NKr 101bn (£8.9bn) plan, for 1989 to 1993, cuts the rate of growth in defence expenditure from about 3.5 per cent a year during the previous five years to 2 per cent a year or less.

This follows the fall in oil prices, with Norway's earnings from oil exports down from a peak of NKr 89 bn in 1985 to NKr 50 bn expected this year.

There is some loss of face in this reduction of the defence growth rate. Norway and Turkey are the only Nato countries to share a border with the Soviet Union. Norway's is 120 miles long and it regards itself as in the frontline. It has been, hitherto, one of the few members of Nato to fulfil its commitment to increases of 3 per cent a year.

Second, there has been a realignment of strategic priorities between the defence of the north and south of the country. This involves greater emphasis on the latter and closer co-operation with West Germany.

This does not mean a lessening of alertness in the north. On the Kola peninsula, the Soviet Union has amassed a formidable array of sea, air and land forces. It has, for example, 11 air bases there and provides facilities for two-thirds of its ballistic submarine force.

If Soviet forces were to attack, according to the calculations of commanders in the north of Norway, they would either sweep round the north to choke off submarine and shipping lanes and/or make a land and air drive across the north of Sweden and Finland. (In the south, an attack would involve moving out of the Baltic Sea, past Denmark to head towards south Norway and the North Sea).

Norway is a large and long country. Its land area is as big as that of West Germany, the Netherlands and Denmark put together, but it has a population of only 4.2m. The point is often made that were the North Cape swung round it would end up in Rome.

It has a standing army of 27,500 (to be reduced, under the plan, to 26,150). But with full and swift mobilisation, about 320,000 men can be under arms.

The plan, which is to be debated by the Storting (parliament) in the spring, is not just about making cuts. Rather it aims at rationalising existing resources. Expenditure on equipment, which totalled NKr 20bn in the 1984-88 plan, will rise to about NKr 27bn over the next five year period.

Nato's northern flank depends, thus, under normal circumstances on a thin but determined line. Norway's forces in the north are dedicated to a holding operation in the frozen and thinly-populated three northern provinces, marked by mountains and fjords, until help comes from elsewhere.

The most immediate source would be Norwegian forces from the south and the mobilisation of reserves. In the last 18 months the navy has been mobilised twice on a war footing and last autumn a brigade was without warning ordered to move to the north.

> The plan is not just about making cuts — rather, it aims at rationalising resources

The second source would be Nato allies, chiefly the US, but with backing mainly from Britain, the Netherlands and West Germany.

The efficiency with which this back-up system works has depended on lessons learned from frequent joint manoeuvres in this harsh environment. Manoeuvres they must be, for Norway forbids the permanent stationing of foreign troops in peace time. But after noisy internal debate, the pre-stocking of equipment has gone ahead.

Norway's commitment to Nato, given its shared border with the Soviet Union, has raised additional questions. Its policy has been called one of "deterrence and reassurance". In the former case, it wants to make plain to the Soviet Union that any attack would be fiercely resisted.

But it also aims to reassure the Soviet Union that it has no intention of becoming a springboard for an attack. Thus it does not permit allied exercises in the northernmost province of Finnmark. Nuclear weapons are forbidden on its soil. Oslo vetoed the stationing of US F-16s capable of carrying nuclear weapons.

But while the emphasis on northern defence remains paramount, there has been growing concern about the fate of the south in the event of a thrust by Warsaw Pact countries through what has been wryly called "the central flank" of Europe.

This concern has been deepened by doubts about the solidity of Denmark's commitment to Nato, in spite of the installation of Mr Poul Schluter's government this month. As a result, Norway, bounded by the Soviet Union and Finland and Sweden – neutrals of varying hues – feels itself to be more than ever an isolated Nato island.

This has produced a notable shift in alliances. The link with the US remains fundamental. But the emphasis has moved away from Britain and the Netherlands towards increasing closeness to West Germany.

This new alliance has the logic of geography and greater dependability. Norway is looking to West Germany to provide the replacement for a Canadian support brigade.

Subject to parliamentary approval and a row not re-erupting between Mr Johan Joergen Holst, the Defence Minister, and his Chief of Defence, General Vigleik Eide, who fought to preserve the 3 per cent growth rate, it remains to be seen whether comparatively reduced funds can cope with new purchases, speeded-up mobilisation procedures and a change in balance in north-south strategic perspectives. For, with this latter aspect in mind, one senior commander in the north remarked that "Norway's forces cannot be in two places at once – even in their own country."

Additional research by Karen Fossli in Oslo

OVERSEAS NEWS

Dollar's strength against the yen worries Tokyo

BY CARLA RAPOPORT IN TOKYO

JAPANESE economists are concerned that the dollar's rise against the yen could fuel inflation, and they are hoping that the Bank of Japan will intervene to prevent a continued dollar surge.

At his weekly press conference yesterday, Mr Satoshi Sumita, the BoJ Governor, indicated that intervention was a distinct possibility, saying said that the central bank will "make an appropriate response depending on future market developments".

Sumita: 'appropriate response'

Economists in Tokyo yesterday said that the Y135 level is a possible flashpoint for intervention. A rise in the value of the yen from Y125 to Y135, they say, would boost wholesale prices by about 1 per cent. This would raise the prospect of inflation, which in turn, could undermine the Bank of Japan's easy monetary policy and cause interest rates to rise and economic growth to slow.

Mr Sumita's comments, however, came only hours after Mr Kiichi Miyazawa, the Finance Minister, stated that he saw no need for central bank intervention to stop the dollar's climb. Almost immediately after his statement, the dollar rose to a six month high on the Tokyo currency markets. It later closed off that peak,at Y132.4, up Y1.45.

Most economists yesterday agreed that Japan would be happy with the dollar at Y130 and that a further rise could be accepted if it was achieved gradually. A sudden surge to Y135 or Y140, however, would both add to cost of fuel and other imported commodities and act to restrict the volume of manufactured imports which are now flowing into Japan and helping to correct its large trade surpluses with foreign countries.

Some economists yesterday were also forecasting an increase in Japanese exports if the dollar regains the Y140 level. Industrialists, however, say that they would have to see a stabilising of the currency at that level for some months before they would review their export policies.

Finance Ministry presses for cut in price of rice

BY IAN RODGER IN TOKYO

JAPAN'S Finance Ministry has fired the first shot in its annual skirmish with the farm sector over the Government's support price for rice. The ministry has indicated that it is looking for a price cut of 5 per cent to Y276.66 ($2.80) per kilogram.

Last year, it succeeded in winning a 6 per cent reduction, the first cut in more than 30 years in this totally protected market. However, the price is still several times higher than rice prices on world markets, leading to increasingly sharp criticism from both Japanese consumers and some of the country's trading partners.

This year, the outcome is less easy to predict. Certainly, the fundamental factors would point to a further reduction. Costs of imported raw materials for fertilisers and pesticides have been declining sharply in the past year. Also, farm incomes have been rising and rice surpluses are uncomfortably high. However, the decision will have to be made in August just as parliamentary debates on the Government's controversial tax reform plans are expected to get under way.

Officials say the Government may prefer to accommodate the farm lobby rather than face noisy opposition on two issues at the same time. The Finance Ministry and the Ministry of Agriculture meet tomorrow

The Finance Ministry will argue that it is necessary to continue reducing the wide gap between the domestic rice price and world market prices in the light of the efforts being made around the world to liberalise farm trade. The Agriculture Ministry will acknowledge the argument for a reduction, but will try to keep it to a minimal size.

S Korean labour disputes fail to dent export surge

BY MAGGIE FORD IN SEOUL

LABOUR disputes and currency appreciation have failed to dent the rise in South Korea's trade surplus which registered a 21 per cent increase to $665m last month.

According to figures released by the Bank of Korea, exports of most items surged, with videotape recorders up 42 per cent, machinery 42 per cent and chemicals 63 per cent compared with the same month last year. Motor exports, the most severely affected by disputes, were down 46 per cent. Total exports for the month totalled $4.6bn.

The current account surplus managed only a 7 per cent rise for the month to $892m compared with last year because of higher prices for raw materials and a boost in machinery imports.

The central bank predicted the current account surplus for this year could reach $10bn, slightly higher than last year's $9.8bn. Accumulated surplus for the first five months of this year is at $4.8bn, 32 per cent up on the same period last year.

South Korea recorded a growth rate of 15 per cent in the first quarter, mainly caused by a surge of export shipments as manufacturers shipped goods before the South Korean currency,the won, appreciated.

Although a number of government institutes have predicted a serious downturn in exports as the currency appreciation begins to bite and companies are affected by labour disputes, the figures for May suggest that the fears may have been overstated.

● South Korea is expected to divert grain imports to Australia, Latin America and South-east Asia because of the US drought, the Agriculture Ministry announced. South Korea imported 10.2m tons of grain valued at $1.1bn last year, 70 per cent of it from the US.

Miners of a golden coast reveal its tarnished face

Nicholas Woodsworth in Abidjan describes a small mining town in Ghana where the hardest job is trying to keep the stomach satisfied

THE STOMACH Has No Holiday Chop Bar is a faded blue and pink restaurant at the end of a muddy alley in the southern Ghanaian town of Obuasi. It is a modest place, not much more than a few battered tables and chairs, where single men come to eat meals of pounded yam, steamed maize or cassava. Ask any of its patrons about the restaurant's name and you will receive a simple explanation: despite the fact there is more raw wealth concentrated in Obuasi than in any other town in black Africa, keeping one's belly satisfied here is a relentless task.

Obuasi owes its existence to one thing only – gold. It is home to the Ashanti Goldfields Corporation (AGC) and sits on top of one of the richest concentrations of the yellow metal in the world.

Before 1897, the year corporation bearers head-carried 40 tonnes of mining equipment 120 miles along jungle paths from the coast, Obuasi was only a few mud huts, far from the centres of local rule. Here slaves of the Ashantis,the tribal dynasty which made this part of Africa famous as the Gold Coast, chipped away at the ground with primitive picks.

The corporation's 100 sq mile concession around Obuasi was leased from local chiefs for £166 ($282) pounds annually. The entire Ashanti area was formally annexed to the British Crown three years later following a bloody uprising during which the Corporation settlement – transformed into a fortified stockade – was besieged by Ashanti warriors.

Today the Ghanaian Government has a majority holding in the Ashanti goldfield,but the British presence remains strong.

AGC is 45 per cent owned by the British multinational Lonrho, which manages it and staffs its senior technical posts with 80 expatriate specialists. Many come from the mining districts of the north of England.

The mile-deep complex is the country's largest single foreign exchange earner (20 per cent) and employs 12,000 miners. Company profits after taxes and royalties exceeded $4m last year.

Obuasi sits in some of the most beautiful country in West Africa. The hills here are lush and green, and in the drifting mists of early morning it seems a fresh, pleasant place. Behind the mist, however, lies the essential grimness which Obuasi shares with every mining community in the world.

Mountains of naked ore tailings built up over the decades dominate the skyline. At the north end of town the iron girders and winding machinery of the pitheads rise gawkily into the air. At the south end is the sprawling ore treatment plant, where 8 tonnes of arsenic a day are pumped out into the smoky air. A snaking overhead conveyor belt joins pitheads to plant. It rumbles and grinds above Obuasi's rusty tin roofs 24 hours a day, seven days a week.

Not all of Obuasi is ugly. On the windward side of town is a green hill, where corporation senior staff and expatriates live in spacious bungalows set in woods and flowered gardens. Expatriate social life takes place at the bottom of the hill, where there are a cricket ground, squash and tennis courts, and the inevitable club.

Although its polished wood and dark paintings are now somewhat tarnished,the aura of colonial leisure has barely faded in the Corporation clubhouse. Cigar smoke and the soft snick of billard balls waft through in the air, amateur dramatics enliven the balmy nights in the auditorium, and a sepulchral dining room offers meat, two veg, and jam roll in custard.

Life for the miners is hardly as pleasant. During the past three years, the Corporation has undergone a major rehabilitation and expansion programme on the strength of foreign loans, and this has included extensive projects to improve miner's standards of living. There are new schools, health clinics, community social centres, and Corporation farms.

One of the World Bank conditions for the advance of AGC's $160m loan was that a major housing project be undertaken immediately. Only 2,500 AGC miners currently benefit from corporation housing. The rest live in over-crowded slums where hygiene, running water, and other simple amenities are almost totally lacking. It is not unusual for Obuasi's unscrupulous landlords to house miners six or eight to a room and demand twice each miner's salary in rent.

By Western standards this would not be an outrageous sum. AGC's minimum basic rate, recently raised by 38 per cent, now stands at $1.07 a day. That the miners are incapable of financing basic needs, despite bonuses, is underlined by their eligibility for the Food and Agriculture Organisation's (FAO) World Food Aid. In return for $1 a month, employees are given 20 kilos of rice and a supply of oil, sugar and dried fish.

Pressure by landlords makes even this gesture inadequate. How, then, do miners make ends meet? The answer is simple: many steal.

There is little Corporation property in Obuasi which is not literally nailed to the floor or chained to the wall. Barbed wire is draped over buildings of stores and supplies. Barriers, turnstiles, check-points and road-blocks are all part of simply getting around Obuasi.

The most tempting and common object of theft in Obuasi, of course, is gold. Underground, management takes as many precautions as it can. In galleries where visible gold seams are present, it raises the ceiling well out of reach and protects the walls with metal grills in an attempt to foil miners.

Possession of mercury, an element used in the crude processing of gold from ore, is illegal in Ghana. Smuggled from hospitals and pharmacies,it nonetheless finds its way down into the mine. A thick paste when it combines chemically with gold particles in ore, it finds its way out again in miner's hats, socks, and lower intestines. Despite the batteries of video cameras, metal scanners, and body searches awaiting miners on the surface, gold theft in Ashanti remains a major problem.

Life in Obuasi is difficult and sometimes demeaning, but the town is far from being a gulag. At the last AGC job offer of 30 positions there were more than 1,000 applicants. Behind the harsh conditions is the simple truth that life here, by Ghanaian standards,is not too bad. Outside, many Ghanaians, if they find employment at all, are only able to survive on rock-bottom salaries by growing their own food. Here that is not possible, but there is the guarantee of hard work and a monthly paycheck.

Ghanaian standards of living should rise as the country's economic recovery programme – in which AGC's foreign exchange earning role is vital – gradually pulls it out of a 15-year period of mismanagement and stagnation.

Obuasi miners will eventually benefit from the recovery, but in the meantime it is certain their sinews and muscles, as well as stomachs, will have no holiday.

N Korean debt plan rejected

By Stephen Fidler in London

AN UNUSUAL proposal to waive 70 per cent of North Korea's debt to foreign creditor banks has run into substantial opposition.

An official at the Australian and New Zealand Banking Group (ANZ), which heads one of the two bank syndicates owed about $900m by North Korea, said yesterday that more than half the banks in its syndicate had rejected the proposal put forward by Morgan Grenfell, a leading UK merchant bank.

More than 75 per cent of the banks had replied and more than two-thirds of these had rejected it, the majority supporting an alternative proposal by ANZ.

The ANZ proposal, which was not agreed with the North Koreans, calls for 30 per cent of the money to be paid over three years, and the rest to be paid after a 10-year grace period, by the year 2005.

The original plan to waive the debt – under which the North Koreans would pay 30 per cent of its debts over three years – was negotiated by Morgan Grenfell with the North Koreans.

Some banks in the Morgan syndicate are also understood to oppose the proposal.

Algeria and Libya plan union vote

ALGERIA and Libya have agreed to hold referendums in September on a proposed union of the two states, but its terms will fall short of the original dream of Col Muammer Gadaffi, the Libyan leader, of total merger, Reuter reports.

The accord was announced by the official Algerian APS news agency late on Tuesday at the end of a two-day visit by a 150-strong Libyan delegation led by Maj Abdel-Salam Jalloud, Col Gadaffi's second-in-command.

In an interview shortly before the announcement Maj Jalloud said Libya was hoping to create a federation with Algeria. He said Col Gadaffi had modified earlier merger plans to take account of changes in the Arab world.

"We thought that if we were to wait until there are revolutionary regimes that think alike we might waste a lot of time and therefore even hurt the cause of unity," Maj Jalloud said.

The move is the first important step towards creating a union of the five north African Maghreb states. Algeria, Libya, Morocco, Tunisia, and Mauritania held their first summit since independence on June 10 and breathed fresh life into the long-cherished idea.

In the past, Col Gadaffi has signed union accords with a number of Arab states, including Egypt, Morocco and Tunisia, which quickly collapsed. His Maghreb partners prefer to think in terms of economic links similar to those of the European Community.

Shultz to return to Middle East

Mr George Shultz, the US Secretary of State, may return to the Middle East next month for his fourth peace mission this year despite the apparent lack of progress, a senior US official said yesterday, Reuter reports from Tel Aviv.

Mr Richard Armacost, the Undersecretary of State, said as he had left Israel after a three-day visit: "We discussed the possibility of a visit in July of Secretary of State Shultz."

An Israeli official said Mr Shultz was likely to tour Israel, Jordan, Egypt and Syria again in mid-July or early August but cautioned against expecting progress towards peace talks before Israeli and US elections in November.

Malaysia legal storm

A tribunal set up to hear allegations of misbehaviour against the suspended head of Malaysia's judiciary adjourned for a day after his lawyers walked out, Reuter writes from Kuala Lumpur. Raja Aziz Addruse, counsel for Lord President Tun Mohammed Salleh Abas, applied to the High Court on Tuesday for an order to prohibit the six-member tribunal hearing the allegations against Salleh.

Japan writes off debt

Japan has written off more than $2bn in loans to Bangladesh, officials said yesterday, Reuter writes from Dhaka. "We have decided to consider the money as grants," a Japanese Embassy official in Dhaka said. Bangladesh expects to spend 23.85 per cent of its foreign exchange earnings in repaying foreign debt during the current financial year.

Budget mistake forces New Zealand into big cost cuts

BY OUR FOREIGN STAFF

THE New Zealand Government faces a massive cost cutting exercise and review of revenues in the run up to next month's budget following revelations yesterday that Treasury forecasts are out by NZ$1.4bn (£566m).

Mr David Lange, the Prime Minister, told the National Press Club in Wellington that the discovery of errors in budget projections meant the forecast for the financial deficit in the year to next March 31 was now NZ$3.2bn against early estimates of NZ$1.8bn. The deficit was NZ$1.32bn (2.2 per cent of GDP) in the year to last March 31.

He said the Government was committed to maintaining the deficit as a percentage of GDP at a similar level to last year. Analysts said this implied a deficit of between NZ$1.4bn and NZ$1.6bn.

Mr Lange said there was no way the NZ$3.2bn figure could be tolerated and explained the enormous change in forecast as an over estimation of revenue in the face of the current economic recession and an under estimation of its expenditure.

He would not comment on whether the budget revision would involve an early introduction of an increase in goods and services tax to 12.5 per cent (against 10 per cent at present) or a reversal of the plan to reduce personal tax rates to 24 and 33 per cent – from a top rate of 48, per cent – from October 1.

Financial markets reacted with some scepticism to his claims that big cuts in government spending would be achieved without unduly damaging social programmes.

AMERICAN NEWS

Argentina to resume payments to US banks

By Stephen Fidler, Euromarkets Correspondent

ARGENTINA is expected to resume interest payments to international banks this week in a move which will allow banks in the US to avoid a downgrading of their loans to the country.

The country has not paid any interest to commercial banks since the third week of March, under a rescheduling agreement made last September. Under US accounting rules, if interest payments are more than 90 days delayed then banks are forced to declare the loans non-accruing, which means they cannot count the payments as income until they have physically received the cash.

Hopes that this could be avoided for time being have risen following indications to the banks from Argentina that it will make interest payments from its own reserves this week. This is said to include about $20m due for the last week of March, and perhaps some payments of interest for April.

Some banks in the US are already understood to have placed the Argentine loans on a non-accrual basis. However, if most US banks were forced to declare the loans non-accruing, the job, starting soon, of negotiating a new debt agreement for Argentina will be made significantly more difficult. The country is thought to require as much as $2bn in funds from commercial banks.

Indeed, if Argentina's worsening economic problems are not sufficient deterrent to the banks to put in new money, the Peronist opposition, putting up a significant challenge to the presidency in October next year, is calling for a formal moratorium on the debt. As a prelude to negotiations, Mr Raul Alfonsin, the country's President, has called for a reduction in the interest rate to 4 per cent.

It is almost certain that if a deal can be hammered out with Argentina's leading creditor banks, it will include for the first time in any debt package an option to allow banks to capitalise interest, instead of provide new money.

Court ruling clears way for prosecution of North

BY LIONEL BARBER IN WASHINGTON

THE US Supreme Court yesterday dealt a major defeat to the Reagan Administration by upholding the independent special prosecutor law inspired by the Watergate scandal and invoked in the Iran-Contra criminal conspiracy case.

The 7-1 ruling clears the way for the criminal trial of Lt Col Oliver North, the White House aide fired for his role in the Iran-Contra scandal and leaves intact the convictions of two former senior advisers to President Reagan.

The court's decision, widely seen as the most important of its term, means that the 10-year-old law which created independent special prosecutors to investigate possible crimes by top government officials is constitutional. Congress passed the Ethics in Government Act to shield investigations of the government from political influence. It was largely inspired by President Richard Nixon who in 1973 ordered the dismissal of the Watergate special prosecutor Prof Archibald Cox.

In recent weeks, conservatives have led an outcry in the press against the powers of special prosecutors who have been vigorously investigating alleged corruption in the Reagan Administration.

Arguing that the special prosecutors' independence of the Justice Department infringed the President's exclusive powers to enforce criminal laws, the Administration and its conservative backers have also pointed out that the Act's provisions do not apply to Congress.

The court rebutted the charges and in an ironic twist the 38-page majority opinion was written by Chief Justice William Rehnquist, a Nixon appointee whom President Reagan elevated in 1986 to head the court.

Chief Justice Rehnquist, often seen as one of the most powerful conservative voices on the court bench, said that the law did not violate the separation-of-power principles in the Constitution by interfering with the functions of the executive branch.

The ruling will have the effect of leaving intact the conviction of Mr Michael Deaver, a long-time confidant of Mrs Nancy Reagan and former top adviser to the President, for perjury relating to his lobbying activities. It also covers the convictions of Mr Lyn Nofziger who has yet to serve a 90-day prison sentence for illegal lobbying. Mr Deaver's sentencing had been postponed until after the court's ruling.

The prosecutors in the Iran-Contra case were given nominal appointments by the US Justice Department to *protect* their investigation against legal challenges. But the early part of the investigation was not covered and defence lawyers had planned to mount court attacks if the law had been struck down.

Shy Joao plays the same old tune

By Ivo Dawnay in Rio de Janeiro

THE EVENT of the decade in Rio de Janeiro's event-packed musical calendar looks set to be a non-event. Indeed, its very non-occurrence is capturing the headlines.

Earlier this month, a group of triumphant impresarios in Rio announced unbelievable news. Mr Joao Gilberto, the genius who almost single-handed created the glorious, offbeat Bossa Nova rhythm that 30 years ago put Brazil in the jazz-pop world's centre stage was to play three nights in the city's *Teatro Munificio*. The reason for the incredulity was because Mr Gilberto is an eccentric recluse who has consistently refused to play.

For 22 years he has declined to give a show in Rio – Bossa Nova's capital – choosing instead to make extremely rare, often unannounced, appearances elsewhere in Brazil's hinterland or abroad.

Once, in 1979, a celebratory return concert in Rio was sold out, but then cancelled at the last moment. So when this latest show, part of a $700,000 contract for 10 performances, a live recording and TV-special, was publicised this month the big question was: "Will he, or won't he?"

Last Monday Joao – through lawyers – made a statement. No, he would not play. He was suffering from a touch of 'flu.

When they had finished climbing the walls, the impresarios announced the show would go on. If Mr Gilberto intended to break his contract, he would have to go to a judge for an adjudication on the state of his health. Mr Gilberto does not go to judges.

In fact, only extremely rarely does he leave his drab hotel apartment at all, preferring, for a social life, to telephone Rio's best restaurants to inquire who is dining.

His lawyers say he is too ill to see a judge, but will when he is feeling better. The impresarios are publicly hoping for a miraculous recovery.

Rio – or that part of it not holding tickets – is, meanwhile, splitting its sides. Those of us with tickets are waiting for Friday with bated breath.

Stewart Fleming on the Massachusetts record of Governor Dukakis

Republicans sharpen taxation barbs

Governor Michael Dukakis has signalled that one of his priorities if he wins the US presidential election for the Democrats will be to launch initiatives aimed at increasing housing for the poor, Stewart Fleming writes.

In Washington yesterday, talking to possible vice-presidential running mates, he said that as President he would commit $3bn of federal funds to the housing market.

Speculation about his likely running mate continues to focus on a number of members of Congress including senators Lloyd Bentsen of Texas, John Glenn of Ohio and Bob Graham of Florida although several other names are also being mentioned.

ONE week ago today, Governor Michael Dukakis of Massachusetts, the certain Democratic candidate for President, turned to what he himself describes as "a last resort". He approved an increase in taxes to try to balance the prospective $200m deficit in the state's $12bn budget.

To raise the funds he announced that he would agree to a 5 per cent sales tax on cigarettes and a revenue-raising reform of the state's corporate income tax to bring it into line with the federal tax code.

The next day Vice-President George Bush, Mr Dukakis's Republican rival for the presidency, went on the attack. "I promise you I will not raise taxes as a first, second or last resort." He told an audience in Ohio that his differences with Mr Dukakis on taxes were "fundamental", ramming home a theme which will be a mainstay of his election campaign in the autumn, namely that his opponent is a Massachusetts liberal Democrat who will raise taxes with abandon to fund his social priorities.

The budget problems have begun to focus wider attention on Mr Dukakis's record in Massachusetts. This is providing Republicans with evidence they can use, selectively, to challenge the governor's claims to be an efficient and parsimonious chief executive with the experience to handle the nation's undeniable budget problems.

In his first term between 1974-78, he inherited a $500m-plus state deficit left by his predecessor but did turn out to be a tough budget manager, reducing state spending by some 5 per cent if debt service and pensions payments are excluded. He was so tough, especially on social programmes, that the interest groups he alienated helped to throw him out of office in 1978, a lesson he has not forgotten and one which has made him a more flexible politican.

In his second term which began in 1983 and his still unfinished third term, the powerful, activist governor and the Democratic state legislature which shares responsibility for the state's fiscal policies will have seen tax revenues boom and state spending surge by around 70 per cent in the fiscal years up to 1989.

Much of the increase has been in state funding for local communities whose own tax bases were undermined by the passage of a state law in 1981 which capped property taxes. This will have risen 60 per cent between 1983 and 1989, rising from $1.7bn to $2.7bn. Rising employment costs for state workers have also boosted spending.

So too have the governor's political priorities in a state whose Democrats and generally liberal Republicans favour an activist role for government. His determination to rehabilitate what he saw as neglected state services is evident in big increases in welfare payments (which are still however below 1968 levels in real terms) and a rapid expansion of the state's capital spending commitments on environmental and transport projects, sewer systems, housing and prisons.

On the other side of the budgetary coin, however, Mr Dukakis has been careful to stay on the right side of the tax issue, backing some of the biggest tax cuts in the state's history. Faced with a $300m deficit on resuming office in 1982, he did not raise taxes but relied more on a popular crackdown on tax evasion which has raised an estimated $1.5bn over five years, according to Mr Richard Manley of the Massachusetts Taxpayers Foundation. In 1985 he agreed to the repeal of the surcharge of 7.5 per cent on state income taxes and in 1986 he did not oppose a ballot initiative to cap the growth of the state's taxes.

The state's immediate budget problems, an estimated $400m deficit in the fiscal year just ending and a projected deficit of $200m in the year ahead, have been the main focus of public attention in the past few weeks, as Mr Bush was quick to highlight. But even critics such as Mr Manley argue that the governor could not have foreseen the tax revenue decline which was largely responsible for this year's budget shortfall.

Mr Dukakis seems moreover to be escaping this short-term problem with a judicious mixture of spending restraint, tax increases and accounting *legerdemain*.

The more serious criticism of his budget policy, Mr Manley says, is that the governor should have accepted, as was frequently pointed out to him, that the 14 per cent annual rate of growth of state revenues since 1983 was unsustainable in the long term, simply because the Massachusets economic boom itself was not sustainable. The rise in local inflation, up recently to the six per cent a year level, reflected this, as did the decline in state unemployment to around three per cent.

Now an overheated Massachusetts economy is running into labour supply constraints, which Mr Frank Morris, president of the Federal Reserve Bank of Boston, predicts will lead to a sharp slowdown in the state's economic growth. As a result there is growing concern about the long-term budgetary and economic outlook expressed by, among others, the Democrat-controlled Massachusetts House Ways and Means Committee. Still, the state's debt rating has recently been upgraded.

Whether Mr Dukakis has fallen into the trap politicians find hard to avoid, namely of assuming the good times will roll on indefinitely, will only become clear in the years ahead. Some of his statements have suggested that he has greater optimism in the ability of policy makers to extend a business cycle upswing than some economists.

His record provides him with plenty of ammunition with which to defend himself against attack from a Vice-President Bush who has to defend arguably the most profligate Administration Washington has ever seen. But it is far from an invulnerable shield against the barbs from his Republican rivals.

US indicators confirm trend to slower growth

BY NANCY DUNNE IN WASHINGTON

THE US Government's main economic forecasting gauge, the composite index of leading indicators, dipped 0.1 per cent in May but the change was in line with expectations that the economy would slow towards the end of the year.

The White House has predicted that the brisk 3.6 per cent growth rate of the first three months of 1988 would falter, but not as much as had been expected. It has raised its forecast for 1988 growth from 2.4 per cent to 3 per cent.

The Commerce Department said that five of the nine indicators available for May contributed to the decline of the index. The largest negative indicator was stock prices. On the positive side were the speed with which suppliers fulfilled orders, manufacturers' new orders for consumer goods and materials, changes in sensitive materials prices and the money supply.

The Commerce Department revised its April index upward from a 0.2 per cent rise to a 0.5 per cent increase.

Peruvian banker ejected

IN another chapter of Peru's botched bank nationalisation, Peruvian police forcibly removed the president of the Banco Wiese, a top private bank subject to state takeover, when he returned to his office on Tuesday, writes Barbara Durr in Lima.

Mr Guillermo Wiese said he had returned to prepare his bank's first half results, apparently with the assent of the Government's administrative committee which was sent into the bank after it was stormed by police last October. The Banco de Credito, whose door was broken down by a small tank last year, has since become a worker-owned institution, thus avoiding nationalisation.

Although President Alan Garcia declared last July that he intended to nationalise all private banks, he has only acted against the Credito and the Wiese. Mr Wiese and his board of directors have been fighting the state takeover in the courts.

Savimbi plea to Congress

MR Jonas Savimbi, the Angolan guerrilla leader, urged Congress to provide more US aid without waiting for the outcome of four-party peace talks between the US, Angola, South Africa and Cuba, writes Lionel Barber in Washington.

Mr Savimbi's appeal came as senior Angolan government officials, who are also in Washington, reaffirmed that the US and South Africa should end aid to the guerrillas before Cuban troops could be withdrawn from Angola. The rival claims reflect a jockeying for position following last week's talks in Cairo between the four negotiating countries. The US-mediated talks are due to resume in Washington on July 11.

Mr Savimbi and his Unita guerilla movement have long been favourites of the Reagan Administration and last year received around $15m in aid.

WORLD TRADE NEWS

Crédit Lyonnais and US group in air lease venture

BY GEORGE GRAHAM IN PARIS

CREDIT Lyonnais, the third largest French bank, and GATX, the US transport and financial group, are to create an aircraft leasing joint venture.

The new venture, GATX/CL Air, will have an initial capital of $50m (£44.4m) and a fleet of 20 Airbus A-320s.

GATX had already ordered 10 A-320s, the latest in the Airbus range, and the two partners announced yesterday that they had ordered another 10 of the aircraft.

These 20 aircraft, costing a total of around $650m, will come into service between 1990 and 1994.

The two companies are now seeking further partners for GATX/CL Air, aiming for a capital of $150m-$200m.

This would allow them to finance a fleet of around 50 aircraft, moving probably to larger jets than the A320, with orders for aircraft such as the Boeing 757 and 767 or the A-310.

The new partners could include financial institutions – possibly a Japanese bank – industrial or services companies, and even airlines, but not aircraft or engine manufacturers.

The aircraft leasing market has been growing rapidly – at twice the pace of new aircraft sales, according to some estimates.

At the end of 1987, 37 per cent of the US aircraft fleet was leased, and around half of these were on operating leases of two to seven years, the area of activity in which GATX/CL Air will be engaged.

Mr Jean-Yves Durance, director of Credit Lyonnais, said that the crash of a prototype A320 at an air show in France last weekend had not shaken the group's intention to buy the new Airbus model.

"It is a mark of our confidence that we are signing our agreement today," he said.

● Reuter adds from Nicosia: Cyprus Airways said it would go ahead with an order for eight Airbus A-320 airliners despite the crash at the weekend.

Mr Stavros Galatariotis, Cyprus Airways chairman, said he saw no reason to cancel orders or have doubts about the new generation Airbus A-320 with its extensive computerised control systems.

Philips agrees to set up China circuits operation

PHILIPS, the Dutch electronic group, has agreed to set up a joint venture in China to make integrated circuits for the consumer electronics industry, AP-DJ reports from Eindhoven.

The group said it would hold an unspecified majority stake in the venture with the Shanghai Radio Factory Number Seven.

Philips said it will invest Fl 57.5m (£16.4m) in the project.

The venture, called Philips Semiconductor Corp of Shanghai, will make circuits for radios, audio cassette players and other home entertainment equipment and will market its products in China and abroad.

Philips said it will provide the technological "know-how" for a plant to be built in Shanghai and will be responsible for operational management of the plant, which will eventually have a capacity of 70m integrated circuits a year.

The Dutch company has been rapidly broadening its manufacturing and marketing presence in China and has signed several joint venture agreements for products ranging from white goods to fibre-optics and consumer electronics.

Philips hopes to build up its Chinese operations on the mainland and in Hong Kong to at least Fl 1bn sales a year.

Earlier this year, Philips restructured its Far Eastern operations and created a new subsidiary, Philips Electronics South East Asia Holding, to manage its growing Chinese activities.

Matra wins Taipei transit contract

By Bob King in Taipei

MATRA *Transport of France* has won a government contract worth $271m (£150m) to build a medium-capacity transit system in Taipei. The French company faced strong competition from Westinghouse of the US and Sumitomo of Japan.

The system, first installed in Lille, France, and already adopted in some US cities, includes cars, electronic controls, and power systems. It will run 12km from Mucha in south-eastern Taipei to Sungshan Airport in the north-east, and is designed to feed passengers into an underground system which is now being built.

The Matra contract has shaken US transport suppliers, which now view competition from European companies for contracts for the $8bn underground system as a distinct threat. The system is due to be completed around the turn of the century.

The Taipei city government opted for the French system on its technical merits, with the price and other details settled only in the past few days.

In the past, political considerations – Taiwan's large trade surplus with the US – have prompted the government to buy US equipment whenever possible.

"I don't think the government's intention was to give privileges (to the Europeans) – Taiwan has no experience in such systems, and they're being very careful about what they choose," said a French trade official.

The project will start in September, and the system should be in service by 1991, according to Dr Paul Lai of the Department of Rapid Transit.

The central government has, however, instructed those managing the mass transit project to limit to US companies, a $171m tender later this year for 132 self-propelled cars.

The deal follows the rejection by Taiwan Power Company of a US bid involving a major hydro-electric project. The bidding for the $100m contract has now been opened for the first time to three European suppliers.

The Taiwanese company had agreed to buy the equipment from Chicago Bridge and Iron of the US, as part of its programme to reduce Taiwan's trade surplus with the US.

E Germany seeks trade accord with EC

BY DAVID BUCHAN IN BRUSSELS

EAST Germany has told the EC Commission that it would like to negotiate a general trade accord with the Community while maintaining its special trading arrangements with West Germany.

The request follows hard on the heels of East Berlin's request earlier this month for formal diplomatic relations with the EC, with member-countries of Comecon, the Soviet bloc trade organisation, moving almost "line abreast" in a rapid rapprochement with the European Community.

There is some surprise in Brussels that East Germany should be ahead of some of its Comecon partners in asking for a trade agreement. Sometimes dubbed the Community's "13th member", East Germany sends goods into the West German market duty-free and with relatively liberal quotas under bilateral "inner-German" trade arrangements.

Evidently, East Berlin now wants to diversify its trade with the EC with the easing of the quotas and restrictions it faces in the 11 other EC member-states.

But Mr Werner Fleck, a director at the East German Foreign Ministry, told EC officials this week that his government wanted to achieve this without reducing the benefits it already enjoys from Bonn.

Inner-German trade, which contains such special features as the permanent West German government "swing" credit for East German purchases of West German goods, was exempted from the EC Treaty of Rome, and Bonn is considered certain to insist on maintaining this exemption.

There has long been suspicion, however, that some East German goods getting privileged access to West Germany "leak" into other EC markets. A trade agreement with the Community might lessen any incentive for this.

Meanwhile, EC-Hungary trade negotiations yesterday entered what Commission officials hope will be their final phase.

The Hungarians will be presented with the Community's new offer to remove national quotas by individual EC states on Hungarian goods by the end of 1995.

Recovery in the economy could open vast opportunities, **John Murray Brown** reports

UK keen to keep hold on Indonesian market

"WE JUST have to hang in there," said a British aid official pressed to explain why after all the difficulties over its first soft loan, the UK was extending a second concessionary credit to Indonesia.

The latest loan – £100m to finance UK projects in Indonesia – is just part of a $4bn (£2.2bn) lifeline thrown out earlier this month by IGGI, the intergovernmental Group on Indonesia, the country's main aid consortium.

It was clearly a measured decision by the UK, part goodwill, part commercial necessity. However, more than £100m has still to be used of the £140m soft loan signed in July 1986, following the visit to Jakarta of Mrs Margaret Thatcher, the UK Prime Minister.

But while the UK is keen to help its exporters, like other donors it is also well aware that any recovery in the Indonesian economy could open up a vast market for major infrastructure projects.

Indonesians greet the prospect with mixed feelings. While adjusting the economy to the fall in oil earnings, technocrats in the Cabinet hope to contain budget spending and foreign debt service, which this year will absorb 40 per cent of the country's export earnings.

Dr Johannes Sumarlin, the Finance Minister, points out that much of the IGGI pledge is balance of payments support, giving the government breathing space to press on with reforms.

But there are equally pressing demands to get projects up and running, particularly from within the technical ministries, which compete for the right to exercise governmental patronage as the main lever of political power.

The UK discovered this the hard way. The largest soft loan contract, a £48m rural electrification scheme for which Northern Engineering Industries is the designated supplier – is now stymied while the Ministries of Energy and Co-operatives squabble over management of the project.

Power, together with communications, remain the priority sectors for development. But there are also moves to stoke up the steel industry, long considered one of the most protected areas. P.T. Krakatau, the state monopoly, recently announced a $400m expansion plan.

Petrochemicals is earmarked for more than $4bn of new investment before 1992. Indonesia is going into downstream production to add value to the country's crude sales, still the main foreign exchange earner.

The latest loan is clearly a measured decision by the UK, part goodwill, part commercial necessity

Seventeen major toll roads are planned, with two already under way. Even some long-haul defence deals look like getting started, with special interest in British Aerospace's Hawk 200.

All tied aid projects must now, however, be financed by soft loans at 3.5 per cent interest, repayable over 25 years with seven years' grace, in line with a Presidential decree of 1984.

The UK was the first to agree such terms, followed by France, West Germany and the Netherlands. Italy, where banks are now allowed to engage in export finance, was the most recent convert.

But Japan has been the clear winner under these new tough terms. Not only has its low interest rate structure made it easier for Japan to meet the 3.5 per cent soft loan ceiling; its dependence on oil imports from Indonesia has made Jakarta an important beneficiary of an increasing aid budget.

This year, Japan has increased its total aid commitment to Indonesia to $2.3bn, a rise which will fund a cut in interest rates on soft loans to just 2.5 per cent.

Indonesia is a natural target for Japanese aid, controlling as it does key raw materials supplies such as oil and gas, as well as Japan's vital trade links through the Malacca Straits to both Europe and the Gulf.

Japan is not the only country to use aid aggressively to underpin trade objectives. France is using soft funds to finance construction of Jakarta's new international airport, which many observers feel Indonesia can ill afford in its present straightened circumstances. "It's not so much Indonesia as the French tax payer I feel sorry for," one Western official commented.

British Petroleum and Foster Wheeler's UK subsidiary have won British government backing under the Aid and Trade Provision (ATP) for a proposed oil refinery, despite the over-capacity in the region. It is unusual for ATP funds to subsidise energy projects.

Officials confirm that Trafalgar House of the UK, negotiating a $400m build operate and transfer (BOT) toll road scheme, has won approval for a £16m ATP grant to finance equity put up by its Indonesian partners. This would be the first time ATP funds – normally disbursed on a government-to-government basis, had subsidised a private sector project.

Indonesian officials are hurriedly familiarising themselves with the BOT concept, which involves private sector finance and commercial risk.

S.G. Warburg and Lazard Freres, who advise the government, have been asked to consider BOT as a way to crank up a long list of projects. The concept is championed by Dr Jusuf Habibie, the influential Minister for Research and Technology.

But while it may work for toll roads, BOT will surely prove more problematic in strategic industries such as those of power generation and steel.

Britain in race for Indian rail order

BY JOHN ELLIOTT IN NEW DELHI

A CONSORTIUM of British Rail Engineering and Fiat of Italy is believed to have emerged as the front-runner for a major contract worth over £30m to supply Indian Railways with technology and components for a new high-speed coach.

BREL would supply the coaches, worth about £20m-£25m and Fiat the bogies worth about £3m-£5m.

The contract is for the supply of about 30 pre-production coaches and bogies, followed by technology and components for manufacturing to be progressively built up in India.

It would be supported with aid from the two countries including the UK's aid-for-trade provision.

Final negotiations have not yet started, but the British-Italian consortium has held to prices submitted late in 1986.

Competition for the order started late in 1985. The main rival bid was submitted by Sumitomo of Japan.

The coaches are to be built at a new factory at Kapurthala in Punjab.

The factory has been set up as part of attempts by Mr Rajiv Gandhi, Indian Prime Minister, to revive industrial expansion in the state, which has been hit for four years by mounting Sikh terrorism.

The plant was opened earlier this year. But because there have been long delays in placing the contract, it has had to start work assembling coaches from parts supplied by an Indian Railways plant in South India.

Siemens wins Kuwait order

SIEMENS of West Germany has won a Dinar 15m ($30.6m) contract to build three high-voltage power plants in Kuwait, Reuter reports from Kuwait.

The contract provides for installing the plants in 24 months. A large number of Western and Asian companies had been competing for the order, ministry officials said.

Kinnock rounds on critics with appeal for realism

BY PHILIP BASSETT AND MICHAEL CASSELL

MR NEIL KINNOCK, the opposition Labour Party leader, yesterday firmly reasserted his authority in the party by rounding on his critics and insisting on Labour's need to change to win power.

The attack came in a speech to the annual conference of the National Union of Mineworkers, the president of which, Mr Arthur Scargill, has been foremost among Mr Kinnock's critics over the last few days.

By successfully taking on a bastion of the Labour left on his own ground, Mr Kinnock will have sought to quell doubts about the party's direction and his own.

Mr Kinnock and the party leapt in popularity in the opinion polls when he last made such a forthright attack on his critics at the party conference in Bournemouth in 1985 when he savaged members of the far-left Militant faction within the party and Mr Scargill.

Even though Mr Scargill immediately rounded on Mr Kinnock, describing his speech as contrary to Labour's policy and constitution, Mr Kinnock's supporters were delighted at his performance and at what they saw as its implications for Labour's immediate future.

Mr Kinnock, who before his speech dismissed suggestions that recent events had left him depressed and considering resigning from the job, said afterwards that he had not just been responding to Mr Scargill's speech earlier this week attacking the Labour leadership.

Kinnock: no chasing off into leftist Disneyland

"It was not just against Mr Scargill's speech. It was against a whole thesis put around the movement which I believe is fundamentally false," Mr Kinnock said.

In his 20-minute address, among his shortest, Mr Kinnock eschewed any direct discussion of the defence issue which has dominated Labour's problems over recent weeks and instead tackled the criticisms which have underlain it.

He insisted on the need for "a genuine, ageless, timeless realism" which recognised the facts of life, rather than chasing off "into some ultra-leftist Disneyland where general strikes and insurrection bring capitalism crashing to the ground."

That realism said that when a party had been defeated three times at general elections, it had a duty to look at itself and review its policies.

Mr Scargill had accused Mr Kinnock of embracing the "malignancy" of realism, of changing policy to suit the flavour of the day and the result of the latest opinion poll.

Mr Kinnock denied the charges, saying that some were defeated by election results and looked for refuge in permanent opposition, which was comfortable, cosy, clean and pure - and "absolutely powerless."

To applause, Mr Kinnock said: "I won't settle for opposition. The Labour Party won't settle for opposition."

His speech received applause three times as long as Mr Scargill's keynote address and a standing ovation from a handful of NUM delegates.

However, Mr Scargill said the speech would "intensify the difficulties, divisions and problems within the party," and he repeated his own preference for Mr Benn as leader.

But Mr Eric Clarke, Scottish NUM area secretary, said it was a "very courageous speech. He challenged the challengers."

Mr Billy Etherington, a pro-Benn NUM Durham Mechanics delegate, said the speech was mixed: "I got brassed off when he was on about realism."

The NUM is expected today to declare its support for Mr Kinnock in the leadership contest, in spite of Mr Scargill's preference for Mr Benn. However, it is also likely to back Mr John Prescott for the deputy leadership rather than Mr Kinnock's choice of Mr Roy Hattersley.

Nissan exports from UK to rise

BY KEVIN DONE, MOTOR INDUSTRY CORRESPONDENT

Nissan, the Japanese automotive group, is to export around 10,000 cars from its Sunderland assembly plant in north-east England to continental Europe in the last three months of the year.

Exports to European markets of its UK-produced Bluebird models will increase to around one-third of next year's planned production of some 60,000 cars.

Nissan is introducing a second Micra-class model to the Sunderland plant in 1992, and by 1993 the company is planning to increase total output to 200,000 units a year, of which some 100,000 units will be exported to continental Europe.

Nissan said yesterday that its 3,000-strong European dealer network had last year sold some 74,000 Japanese-produced Bluebirds, but that these would be progressively replaced with Sunderland-produced cars in 1989.

Nissan said that it would establish its main export terminal at Teesport, also in the north east, where work will start next month on a new 12 acre site.

The bulk of the cars to be exported to continental Europe will be shipped from Teesport to the existing Nissan terminal in Amsterdam, although some cars for southern Europe will be shipped from a port on the south coast.

In preparation for the export programme Nissan is adding some 250 new manufacturing jobs within its existing assembly facilities and in the new press, engine and plastic injection shops which are being commissioned this year.

The overall Nissan workforce in Britain will increase to 1,650 by August and is due to rise to around 3,500 by 1992.

INQUIRY INTO BARLOW CLOWES COMPANY SHARE TRANSACTIONS

Stock Exchange probes Ferguson deals

BY RICHARD WATERS

THE STOCK Exchange is understood to have launched an investigation into share dealings in James Ferguson Holdings, the listed parent of the collapsed Barlow Clowes investment empire.

At the same time, liquidators of the Barlow Clowes companies are investigating whether investors' money was used to finance the purchase of shares in the company.

Mr Peter Clowes became chairman of Ferguson, a former knitwear company, in April last year after a reverse takeover of his investment business.

The company was also the former vehicle of Mr Guy Cramer, an associate of Mr Clowes who is alleged by the liquidators to have received £13m of investors' money.

It has already been established that investors' money was used to support a back-to-back loan of £11m to Ferguson.

The dealings under investigation are believed to involve the purchase of nearly 700,000 shares in the company late last year.

The purchases were made by three Gibraltar-based settlements, or trusts. According to the Ferguson share register, the Estepona Settlement, San Pedro Settlement and Mejas Settlement, all named after Spanish towns, acquired the shares in 17 separate transactions which appear on the register between November 5 and December 18.

The major purchases were registered on November 5, November 19 and December 17. During this period the share price fell back from 120p to 80p.

The Stock Exchange, which refused yesterday to comment on the investigation, is believed to have uncovered the purchases while inspecting dealings in Ferguson following the Barlow Clowes collapse.

A spokesman for the Exchange said yesterday that it launches investigations in circumstances where share prices move rapidly, or where there are "other significant circumstances" to put it on alert.

The Gibraltar trusts are believed to mask their true beneficiaries and settlors, making it impossible to tell for or by whom the purchases were undertaken. However, a lawyer involved in the case said that the purchasers' identities would be uncovered soon.

"It's like candyfloss – give it one good lick and it all vanishes," he said, referring to the artificial trust arrangements that had been set up.

THE INDEPENDENT inquiry into the Department of Trade and Industry's handling of the Barlow Clowes affair should be completed by the middle of October, writes Peter Riddell, Political Editor.

Mr Francis Maude, the corporate affairs minister, said in a parliamentary written answer last night that he had been assured by Sir Godfray Le Quesne, the independent investigator, that "he will report as soon as is consistent with the completion of a thoroughgoing inquiry."

He added: "From what he has seen so far he confidently expects to report before Parliament reassembles in the autumn." That is expected to be in the second half of October.

Mr Maude continued: "Subject to there being no legal impediment, either as to content or to timing, I would propose to publish the report as soon as practicable thereafter."

The Government has declined to answer a series of parliamentary questions about the events leading up to the collapse of Barlow Clowes, referring to Sir Godfray's inquiry.

There is, however, considerable unease among MPs on both sides of the House about recent press reports and other disclosures about warnings given to the department both before and after Barlow Clowes was given the status of a licensed deposit-taker in 1985.

Money men soak up cash on the sunshine coast

Richard Waters examines the Gibraltar financial community's lucrative expatriate market

THE REEK of money in Marbella, in the heart of Spain's Costa del Sol, is almost as strong as the reek of suntan oil.

In the past couple of years, the coast has become a popular base for assorted investment advisers, brokers and managers – and the marketing hype behind some of the investment vehicles is getting as steamy as the climate.

Depending on which marketing company's figures you believe, there are between 150,000 and 350,000 expatriates living along the coast, which extends in an almost unbroken sandy strip from Malaga to Gibraltar. Most of them are British and they are all well off.

The typical expat on the coast has financial assets of between £100,000 and £200,000, estimates Mr Gwilym Rhys-Jones of Andrew Copeland Insurance Brokers, which set up in Marbella two years ago.

This is the market that has provided the impetus to Gibraltar's emergence as a modest financial centre in its own right. Three years ago, before Spain ended its 16-year blockade of the border, the British colony was a quiet backwater, known in the financial world mainly for its part in the Minet and Signal Life scandals.

Now the colony plays host to many of the companies trying to tap Spain's expatriate community. Companies that obtain tax exemption in Gibraltar, of which there are now more than 3,000, pay a flat rate of tax of either £200 or £250 a year, regardless of their profits. The marketing, administration and other operations are then located in a rented office along the coast, allowing companies to operate virtually unfettered by regulations or taxes.

The existence of a Spanish wealth tax on the worldwide assets of the country's residents has also encouraged many expatriates to set up their own Gibraltar tax-exempt companies. Properties held by such companies fall outside the scope of the tax.

The emergence of the Costa market was one of the main reasons for switching the Barlow Clowes operations from Switzerland to the Rock a year ago, says Mr John Perez, the former managing director of Barlow Clowes International (BCI) in the colony. In the event, BCI raised £7m along the coast, as well as £1m in Gibraltar itself.

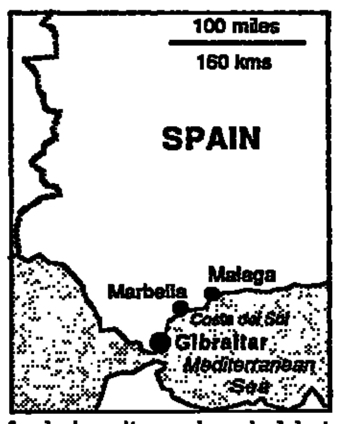
The Costa financial community is closely knit. Mr Richard Felipes, the BCI sales director responsible for developing the market, left shortly before the collapse to take up a similar job with American Life, which has just opened in Gibraltar.

The expatriate magazines on the coast contain promises of far more than the 9.9 per cent being offered by the BCI gilts fund earlier this year. A number of gilt funds offer returns well into double figures: even established names such as TSB, MIM Britannia and John Govett advertise 12 per cent or more.

Highest of all, though, is Gibraltar Stockbrokers and Investment Managers, a Gibraltar-registered company operating in Marbella. It advertises a return of 20 per cent a year – an offer bettered only by the man with stumps for legs who sells lottery tickets around the corner in the City's old town.

Mr Cliff Moody, a Briton in his mid 50s, came out of retirement as a pub owner in the UK to launch the company three years ago. He is an old hand in the offshore finance world, having been a director of Slater Walker in the 1960s after he sold his Bahamas investment company to the British group.

Gibraltar Stockbrokers, which operates from a building next to Marbella's bus station, has attracted £2m to its high-income fund since it was launched last summer. Investors' money is used both to buy shares in blue chip British companies and call options against the shares. The dividend income and option premium between them has helped his investors to achieve an annualised return of 20 per cent, says Mr Moody.



Like others in the financial community along the coast, Mr Moody is now becoming concerned that extravagant claims for investment products can backfire. His new advertising, after Barlow Clowes, does not mention the 20 per cent. He is eager to point to the "guarantee against misappropriation" he offers: investors' money is paid straight into an account controlled by an options dealer in London.

There is also a darker side to Marbella's financial services industry. Operating from a suitably discreet building in the tree-lined Alonzo de Barzan in the heart of town are a series of "boiler room" operations – companies involved in high-pressure telephone selling of shares of negligible value at inflated prices. Their identities are hidden behind anonymous post boxes at the building and attempts to contact them on the telephone or in person prove fruitless.

At least three are believed to operate, or to have operated, from the building in recent months. One appears to have recently moved out of the Edificio Diplomático: other residents say that the directors' cars, including a Porsche 911 and a Saab Turbo, have not been seen for several weeks.

Mr Joe Bautista, head of financial regulation in the colony, is concerned about this abuse of Gibraltar registration. "We consider them to be undesirable," he says of the Marbella-based companies. However, apart from preventing directors of one of the companies from setting up further entities in the colony, he has been powerless to take action.

"We cannot launch any investigations as such," he says. "We need to update our company law first."

Compact disc makers dismiss corrosion fear

BY TERRY DODSWORTH AND PAUL ABRAHAMS

A FURIOUS ROW broke out in the compact disc industry yesterday when the established manufacturers closed ranks against claims that the products of this bright new technology might not be as indestructible as at first thought.

This murky blot on the landscape emerged with reports that Nimbus Records, which operates from an elegant country house in Monmouthshire, on the Welsh borders, had found that the discs were susceptible from corrosion caused by the ink used in printing on the casings.

Nimbus, in which Mr Robert Maxwell, the publisher, recently bought a controlling stake, was quoted as saying that it had now solved the problem in time for a relaunch of its discs in the autumn. But its competitors were all furiously asking what the problem was in the first place.

"This is nonsense," said Sony, the Japanese group which helped develop the compact disc technology with Philips of the Netherlands. "We are at a loss to comment," said Thorn EMI. "I suppose that if you ran a knife over a disc it would not do it any good, and you might destroy it if you stubbed out your cigar on it. But you could pour jam on it without causing any damage."

Nimbus' competitors suggested that the story might have originated in the search for publicity in what is becoming an increasingly competitive industry.

By last night, indeed, the company itself seemed to be back-tracking, suggesting in a statement that the report was an "over-simplification."

There could, it repeated, be problems of ageing with compact discs, but Nimbus had "always been a high-quality manufacturer, and we guarantee our discs for a hundred years."

Behind the row are substantial stakes, with the industry now more than doubling every two years in unit output, which reached 180m worldwide last year.

The most authoritative statement on the ageing problem came last night from Mr Serge Du Poix, president of MPO Disques, which has been manufacturing CDs in Western France for several years.

He said his company had problems with ink corrosion at the experimental stage – a process in which the ink ate through a protective external lacquer, and then attacked the aluminium cover around the basic plastic pressing.

That problem had now been solved. "The public can have confidence about accelerated ageing," he said. "I do not know why Nimbus has said this."

RUC chief will not face disciplinary proceedings

BY OUR BELFAST CORRESPONDENT

SIR JOHN HERMON, Chief Constable of the Royal Ulster Constabulary, and two of his chief officers will not face disciplinary proceedings after allegations that they obstructed the Stalker-Sampson inquiry into allegations that the Ulster police conducted a shoot-to-kill policy in 1982.

The Northern Ireland Police Authority concluded by a majority of one that further investigations were not necessary and that no disciplinary action was needed. The 16-member authority comprises a cross-section of the community appointed by the Northern Ireland Secretary.

The two officers were Mr Michael McAtamney, Deputy Chief Constable, and Mr Trevor Forbes, Assistant Chief Constable.

The authority had considered a report by Sir Philip Myers, an Inspector of Constabulary, about observations made by Mr Colin Sampson, Chief Constable of West Yorkshire, of the role played by the three officers in connection with his and Mr John Stalker's inquiry.

Mr Sampson took over the investigation in May 1986, replacing Mr John Stalker, then Deputy Chief Constable of Greater Manchester. They were investigating the killing of six people by RUC officers.

All-embracing section of secrets law to be abolished

John Hunt explains the proposed legislation

THE CONTROVERSIAL "catch-all" Section Two of the Official Secrets Act will be abolished under the Government's proposals published yesterday. It will be replaced by six clearly defined catagories of disclosure for which people may be prosecuted.

Section Two of the 1911 Act was enacted by the Liberal Government of H.H. Asquith to address a circumstance which under the previous, 19th century legislation meant that no penalty could be imposed on the recipient of unauthorised information.

This section has, however, been criticised as too embracing. No detail of official information, however trivial, can be disclosed under Section Two without authorisation, on pain of imprisonment. All civil servants, ministers, members of the armed forces and police officers are bound by the law which would, for instance, make it an offence even to divulge the menu in the Ministry of Defence canteen.

Under yesterday's White Paper, or policy document, however, it no longer be an offence merely to receive unauthorised information. Instead, the six catagories would cover the type of disclosure likely to be harmful to the public interest. They are: defence; security and intelligence; international relations; information obtained in confidence from other governments or international organisations; information useful to criminals; information about Government interception of telephone calls, mail and other forms of communication.

Certain classes of information, such as cabinet documents, advice to ministers and economic information, will not be specifically protected under the proposed legislation.

The policy document proposes that in some cases the prosecution will have to convince the courts that the breach of security is likely to cause specific harm to the public interest.

However, this will not apply to members of the security and intelligence services, such as MI5 and MI6. In these cases the prosecution would not have to produce evidence of likely damage to the operation of the service.

It will simply be an offence for any serving or former security or intelligence officer to make any disclosure relating to security or intelligence or which purports to be such information "or which is intended to be taken as such."

The Government has rejected suggestions that there should be a general defence that a disclosure was made in the public interest.

Mr Douglas Hurd, the Home Secretary, has also rejected a general defence of prior publication wherein the defendant could plead that the leaked information had previously been made public. Nevertheless, it would be possible for the courts to assess whether harm had been caused by a second disclosure.

In its proposals for legislation, the Government has abandoned the idea of ministerial certificates under which a Government minister would have the sole right to decide whether a disclosure was likely to cause serious injury to the interests of the nation or endanger the safety of a UK citizen. In future cases this would have to be decided in the courts, usually by a jury.

Mr Hurd also makes it clear in the proposals that the Government will still be prepared to use the civil law to protect security as it has done in the case against Mr Peter Wright who wrote Spycatcher, his memoirs as an MI5 officer.

The policy paper also emphasises that the Civil Service Discipline Code can be used against civil servants who leak information. Once new legislation is in place the code will be amended - the implication being that it will be tightened.

The intention, according to the document, is "to apply the criminal law to those, and only those, who disclose a limited range of information without authority, knowing or having good reason to know that to do so is likely the harm the public interest.

"The proposals would not apply criminal sanctions to disclosures which are not likely to harm the public interest, nor to anyone who could not reasonably have been expected to foresee the effect of his disclosure.

"It will be for the courts, and the courts alone, to decide whether the disclosure of particular information is criminal. The Government is entrusting the safeguarding of the public interest to the jury."

It maintains that it will result in clear and intelligible legislation which juries could apply readily and equitably.

Marketing of anti-herpes drug may be 2 years behind schedule

BY PETER MARSH

SHAREHOLDERS in Porton International, a British biotechnology company which has raised £76m from leading financial institutions, are likely to be told today that the development of an anti-herpes medication, one of the company's most promising potential products, is two years behind schedule.

The five-year-old company, which today holds its annual meeting in London, is backed by one of the largest amounts of funding obtained privately for a biotechnology company in either the US or Europe.

Porton recently recruited as chief operating officer Mr John Burke, one of Britain's most highly regarded pharmaceutical executives who was previously chairman of the UK operations of Glaxo, the country's biggest drugs company.

Porton, which last year had annual sales of about £13m, has attracted attention not only because of the size of its funding. It has a reputation among some City of London analysts for giving few details of its activities that could enable them to evaluate the worth of the company.

Mr Wensley Haydon-Baillie, chairman and founder of Porton, said the company did not go out of its way to seek publicity. "We keep people informed who need to be informed," he said.

Among Porton's most potentially lucrative products is a combined vaccine and drug for herpes, a condition that affects some 25m people in the US and can be a precursor to AIDS.

According to Dr Zsolt Harsanyi, Porton's joint chief executive, the company hopes to be selling the product in 1990, two years behind schedule.

This may disappoint some shareholders who had expected the product – which has potential sales in the 1990s, according to some analysts, of hundreds of millions of dollars a year – to come to the market sooner.

Dr Harsanyi said clinical trials of the medication were proceeding in three centres in the US and preliminary results had been promising.

Mr Haydon-Baillie has been a key player in raising money for Porton from financial institutions such as Legal & General, Sun Life, Lloyds Bank, Friends' Provident and the pension funds of British Telecom, Barclays Bank, Imperial Chemical Industries and the Post Office.

Mr Haydon-Baillie, who is also chairman of Optical & Medical International, a publicly-quoted electro-optics company, has already made a large personal gain from Porton. In December 1986, he sold for about £24m a block of some 300,000 shares in Porton which he owned to a group of financial institutions.

The chairman still owns roughly 35 per cent of the company, which has 400 employees – roughly two thirds in Britain and the rest largely in the US – who work for 22 subsidiaries. Other individuals, including company directors, own 11 per cent of the Porton shares, with the balance by financial institutions.

About half the company's revenue comes from products such as fermenters, instruments and drugs obtained from blood. The rest comes from services in areas such as consultancy.

The company is also working on a project for the US Defence Department to devise a vaccine against botulism, a bacteria-spread disease which could be promulgated by chemical warfare.

Other products in the company's development pipeline include anti-viral drugs and naturally occuring proteins which could be used to treat certain types of ailment.

Boom in building lays firm base for cement industry

BY ANDREW TAYLOR

THE EXTENT of the recovery in Britain's cement industry can be judged when the country's biggest manufacturer talks of reopening two of its kilns and says it has been forced to import small amounts of cement from the continent this year to meet sharply rising demand from construction companies.

Blue Circle, which manufactures just over half of the 14m tonnes of cement sold in Britain, also announced on Tuesday that it was increasing its prices by about 5 to 6 per cent from August.

Britain's two other cement manufacturers Rugby Group and Castle Cement had announced similar price rises just a few weeks earlier. Blue Circle said it was the first time for three years that a price increase had been announced by all three companies.

The fact that the price increase looks like sticking is another example of how the outlook for the cement industry has changed in a very short time.

Only last August, Blue Circle lost some of its market share when it tried to raise its prices by about 2 per cent and Rugby and Castle did not follow suit. The group says it has since regained most, if not all, of the lost ground.

Since 1970, the number of British cement factories has fallen from 47 to around 20. The industry's workforce has more than halved since 1974 and cement sales have fallen from an average of 17.5m tonnes between 1968 and 1972 to around 14m tonnes last year.

It was only 2½ years ago that Blue Circle announced it was making a further 2,000 workers redundant in the next phase of the group's long-term strategy to improve profitability and reduce over-capacity.

Cement sales in Britain, however, are thought to have risen by about 4½ per cent last year. A further increase of perhaps as much as a tenth is forecast for this year. Cement companies have also begun to benefit from higher efficiency.

Most brokers, therefore, expect a large part of the price increases announced by cement companies to work through to improved profits – despite assertions from the manufacturers that the rises were needed to offset increased costs.

Blue Circle's share price after its price rise announcement on Tuesday increased by 14p to 435p as brokers' analysts upgraded forecasts for the group.

The main reason for the improvement in cement companies' fortunes can be found on building sites particularly in southern England where construction output has continued to surge.

Construction output in Britain last year rose to its highest level for 15 years. Output increased by 8.5 per cent, the fastest rate of growth since the mid-1960s and almost twice the rate of growth of any of Britain's Continental rivals.

And the upward trend looks like continuing for at least another 18 months. Construction orders in the first four months of this year, according to the Environment Department, were 20 per cent higher than during the same period last year. Orders for offices and shops were almost 60 per cent higher than in the first four months of 1987.

It should be no surprise, therefore, that cement sales by Blue Circle in the first five months of this year were 16 per cent higher than in the same period of 1987. The underlying increase was about 10 per cent after allowing for the effects of a mild winter which would have accelerated building work, said Mr Jim McColgan, chief executive of Blue Circle's cement operations.

There had even been occasional shortages of cement in a few areas.

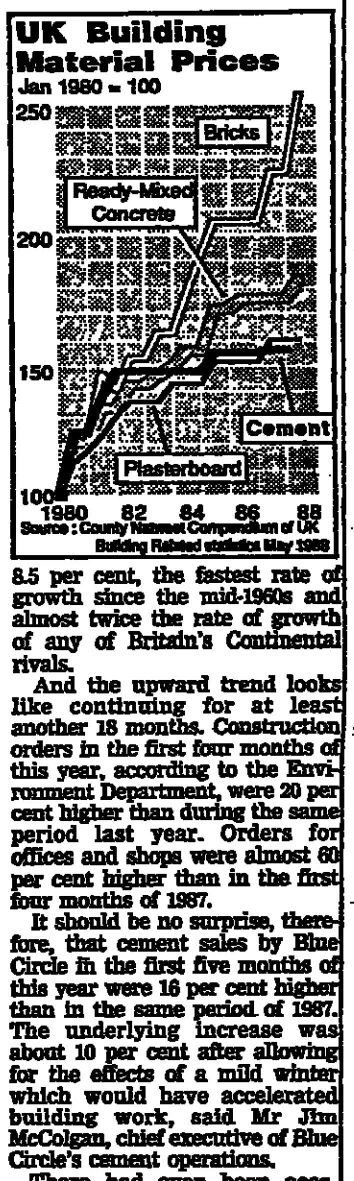
This year it imported about 30,000 tonnes of Belgian cement and 130,000 tonnes of clinker, which is produced by baking the raw materials used to make cement. The group said that some Greek cement, exported by Blue Circle to the US, might have to be diverted to the UK to meet rising demand.

The irony of this remark was not lost on Mr McColgan who remembered how Blue Circle, Rugby and Castle had banded together two years ago to try to prevent subsidised Greek cement from being sold in Britain.

Fears that cut-priced imports would take a larger share of the British market partly prompted the cement manufacturers in February last year to abandon their 53-year-old common pricing agreement.

The move to free market pricing has not had the impact on the industry that might have been expected. Charges have generally remained in line.

UK Building Material Prices
Jan 1980 = 100



Source: County NatWest Compendium of UK Building Related statistics May 1988

Lloyd's to see cut in membership

By Richard Waters

THE NUMBER of individual members of Lloyd's, the London insurance market, looks set to fall this year for the first time in nearly 20 years.

The fall, caused by overcapacity in the market, would end a long run which has seen membership grow from just 5,999 in 1970 to 33,532 at the start of 1988.

The decline is being brought about by a downturn in the level of insurance business being written, reflecting greater competition in the markets in which Lloyd's operates.

"The improving...results of the past few years have encouraged an increase in capacity, not only in Lloyd's but worldwide, and this has led to pressure on premiums and hence reduced capacity utilisation," said Mr Murray Lawrence, chairman of Lloyd's, in his address to the annual meeting of members yesterday.

At present Lloyd's members, who accept unlimited liability when joining the market, have only accepted around 60 per cent of the business they are allowed to undertake, said Mr Lawrence.

This is due partly to competition, and partly to the strength of the pound, he said. Since 70 per cent of Lloyd's business is conducted in US dollars but its members' limits are expressed in sterling, a strong pound increases the capacity of members to accept new business.

This has left little room for new members. Only 805 applications have been received so far this year, compared with 1,790 at this stage last year. Others who would like to join have been told that there is no room for them, said Mr Miller.

While applications have fallen, resignations have increased. So far this year 480 members have resigned, compared with the 175 resignations at the same time last year. The increase largely arises from concern about highly publicised underwriting losses.

IN BRIEF

Law society warns of solicitors shortage

The solicitors' profession is facing a recruitment crisis, even though more new entrants are being trained than ever, writes Raymond Hughes. The Law Society, the profession's governing body, cited social, economic and political changes - in particular increased home ownership - and the increasing complexity of the law in many fields as contributing to the explosion in demand.

Firms throughout the country are finding it difficult to recruit qualified solicitors, notably in economically depressed areas and the less fashionable towns in the South East.

There are now almost 50,000 solicitors in private practice in England and Wales, about 20 per cent of them women. About 3,000 new entrants – more than half of them women – are now being admitted into the profession each year. The Law Society estimates that that figure needs to double if current demand is to be met.

Scots growth rate 'to catch up UK'

The Scottish economy is likely to grow at about the same rate as the rest of the UK in 1988 after two years in which it has performed much worse, said the Fraser Allander Institute.

The Institute raised its forecast GDP growth for Scotland to 3.2 per cent from 2.9 per cent. It also found recent government statistics showed industrial production in Scotland grew by 5 per cent in the last quarter of 1987 against just 0.7 per cent in the UK as a whole.

Appliance sales up

UK kitchen appliance makers last year recovered ground they had lost to importers, said Amdea, the industry association. Their 59 per cent share of the automatic washing machine market was the best since the 1970s.

British manufacturers outperformed the market, with the value of domestic production at present prices rising 16 per cent to £1.54bn. Exports rose 40 per cent to £282m, but imports by only 1.6 per cent to £945m.

Air rules challenge

Charter airlines have won the backing of MPs in seeking a relaxation of night flying rules at Gatwick airport, London's second, so that delayed jets can fly later and thus ease congestion.

Telephone checks

Metering and billing systems of British Telecom and Mercury, the two UK licensed telephone companies, are to be monitored independently, Oftel said. The industry's watchdog was responding to widespread criticism last year of inaccurate telephone bills.

Bottler bought

Burn Stewart, family whiskey blender and bottler, has been bought by a combination of a management buy-in and buy-out funded by Murray Johnstone, Glasgow fund managers, and Charterhouse Development Capital. No price was disclosed but the package is understood to be about £10m.

Poster sites sold

MAI, financial services and poster advertising group, agreed to dispose of about 2,000 roadside poster sites by November 25 this year in line with a Monopolies and Mergers Commission ruling late last year. MMC ruled that MAI's takeover of London & Continental would otherwise be against the public interest.

Society rules

Draft regulations governing the conversion of building societies, home loan institutions, into public companies are to be laid before Parliament early next month, for passage before the summer recess rather than in autumn as had been expected.

Companies 'effectively dead' after failing to exploit IT

BY ALAN CANE

A SIGNIFICANT proportion of US and European companies were already effectively dead without realising it because of a failure to exploit information technology (IT), a leading US academic claimed in London yesterday.

Professor Michael Scott Morton of the Sloane School of Management at the Massachusetts Institute of Technology (MIT), gave a warning that a sharp divide had already opened up between the small number of companies who were successful users of IT and the rest.

In any single industry sector such as financial service or travel it had proved impossible to show on balance that IT had had any noticeable impact on productivity, implying a kind of equilibrium between a small number of companies successfully using IT to boost their performance and a larger number whose competitiveness was gradually eroding away.

Prof Scott Morton was giving the first findings from the $5m five-year "Management in the 1990s" programme which has been running at MIT since 1984. It is funded by 10 companies including General Motors, British Petroleum, American Express and International Computers.

Among his conclusions, which he said most companies would find unpalatable and hard to take on board, were:

●Companies have to rethink their entire strategy to get advantage from IT. Those who simply spend money to impose computer technology on top of their existing practices would gain minimal benefits.

●There was no single example of a company which had derived sustainable competitive advantage through the use of IT. Effective use of IT had become a competitive necessity rather than a way of secure competitive advantage.

●Companies which were successful in the use of IT forged partnerships at senior planning level between people who understood the technology and those who understood the business.

He agreed most companies in the 1990s would have to think hard, plan cleverly and spend prodigiously on IT simply to keep pace with the competition. If they did not they would find themselves "dead in the water". With luck or judgment they might find themselves with a real but short-lived competitive advantage.

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LAW

An ambiguous victory for the small brokerage client

By Leo Herzel and Daniel Harris

THE IDEA that there is an inalienable right to litigate in the courts is deeply imbedded in American society. It is an issue on which the political right and left agree. And, despite big business protestations to the contrary, when we watch behaviour instead of talk, it is also an issue on which rich and poor agree. A recent Securities and Exchange Commission action that would preclude brokers from forcing customers into arbitration vividly illustrates the point.

The staff of the SEC, with the support of chairman David Ruder, is proposing legislation that would bar brokers from insisting on pre-dispute arbitration agreements with customers as a condition to opening an account. The draft bill(1), which the Commission will consider again early in July, would effectively overturn last year's US Supreme Court decision in *Shearson/American Express v McMahon*(2), which held that securities fraud and RICO claims can be resolved in arbitration.

No matter what the SEC does in July, pre-dispute arbitration agreements for retail brokerage customers appear to be on the way out. Representatives John Dingell and Edward Markey, Chairmen of two key Congressional Committees, have jumped on the bandwagon for prohibitory legislation. At the state level, the North American Securities Administrator's Association has condemned pre-dispute arbitration agreements and three states, California, Massachusetts and New Mexico, are already considering proposals to forbid or restrict their use(3).

Although the proposed legislation is framed in terms of expanding investor choice, its practical effect would be to eliminate pre-dispute arbitration agreements in brokerage agreements with retail customers. Because stock exchange rules already give the customer the right to arbitration after there is a dispute, customers would have no incentive to sign such agreements if the broker could not make it a condition of opening an account.

This is a step in the wrong direction. Litigation in America is usually slow and very expensive. Stock exchange arbitration programmes appear to have worked remarkably well in settling disputes between market participants efficiently. Arbitration is relatively quick and informal, and legal expenses are therefore much smaller.

On average, New York Stock Exchange arbitrations that go to hearing are resolved within about nine months of filing; the median is six to eight months and the median hearing length is approximately one day. By contrast, the median time to verdict for federal civil cases is 20 months (in some districts much longer) with an additional 10.3 months for a decision on appeal. The median time for a jury trial in securities and commodities cases is four to nine days.

While arbitration awards are not as generous as some jury verdicts, there is no evidence that they are inaccurate or that arbitrators are biased against customers. In nearly half the New Stock Exchange cases there is a favourable outcome for the customers. Besides, as the Supreme Court pointed out in the *Shearson* case, the SEC has the authority to mandate any stock exchange arbitration rules it deems necessary (including rules governing the selection and training of arbitrators) to assure fairness or protect statutory rights.

Substituting litigation for arbitration would impose significant additional costs on the securities industry. The stock exchanges handle hundreds of thousands of trades every day. Customer losses caused by the sharp ups and downs of the stock market are easy to blame on bad advice. This makes securities firms particularly tempting targets for litigation. Jury trials are a perilous undertaking for any deep pocket defendant. Jurors tend to sympathise with the economic underdog are are often exceedingly generous in awarding damages. Only this June, for example, a Kentucky jury ordered Ashland Oil Inc. to pay $70m for wrongfully discharging two executives.

If pre-dispute arbitration agreements become illegal, brokers who do business with small customers will have to pay much more in legal fees, settlements and judgments. This would benefit some litigious customers with large claims and their lawyers. But in the long run small customers as a whole would either have to pick up the additional cost in the form of higher prices or become uneconomic. Small brokerage customers are already in peril of being declared uneconomic.

One rationale for the SEC proposal is that customers have sometimes to be dragged screaming and kicking into arbitration. But that says more about the opportunistic behaviour of litigants than it does about the fairness of arbitration agreements. Even if arbitration procedures and outcomes were perfectly fair, it would be likely that one party would prefer litigation once a dispute arises. A plaintiff with a potentially large claim may want to gamble on a very large jury verdict. An aggressive defendant may hope to stall the case and wear down the plaintiff through expensive pre-trial discovery and legal motions. However, the possibility of after-the-fact regret is no reason to make arbitration agreements illegal.

The two-faced attitude of the brokerage industry on the subject does not make it easy to defend compulsory arbitration clauses. After a dispute has arisen, when it suits them, brokers appear to feel free to attack these clauses in the courts. Recently, an outraged US Court of Appeals in Chicago imposed sanctions on PaineWebber for trying to evade an arbitration clause by litigating in the courts(4).

One reason why SEC Chairman David Ruder favours the proposal is because securities firms are not as insistent on arbitration clauses in contracts with institutional investors. But discounts and other advantages for large volume purchasers are common throughout the economy. They are usually economically justified because of the seller's reduced transaction and administrative costs. If some institutional investors choose to take their volume discounts in the form of litigation options, it is hard to see why small investors or the SEC should care. Moreover, litigation by institutional investors is not as threatening to brokers. Because they are larger and more sophisticated, institutional investors are less likely to win large sympathy jury verdicts. And since they are repeat players in the securities industry, institutional investors are less likely to bring unreasonable claims or to take unreasonable positions in settlement negotiations.

The SEC staff's rationale for the proposal is that the prevalence of arbitration clauses (they are standard for over 90 per cent of the industry) shows that customers are forced to sign. But some firms do offer small investors brokerage contracts without arbitration agreements. More firms would probably follow suit if there were any significant demand. The prevalence of arbitration clauses probably indicates that very few customers care enough about litigation options before there is a dispute to make them a factor in selecting their broker or to pay more for them.

The precise impact of the SEC proposal is impossible to calculate today.

(1) The SEC action is described in 20 Sec. Reg. L. Rep. 832–834 (June 3, 1988). A copy of the draft bill is in the possession of the authors and is available upon request at Mayer, Brown & Platt in London.

(2) 107 S. Ct. 2332 (1987). Herzel Arbitration Clause as Protection against RICO Litigation, Financial Times, July 3, 1987.

(3) By contrast, the courts are trying very hard to make arbitration effective. The Court of Appeals for the Fifth Circuit in Rodriquez de Quijas v Shearson/Lehman Brothers Inc. Nos. 87–2888–2891 (May 31, 1988) held that a pre-dispute arbitration clause was enforceable with regard to a claim under the Securities Act of 1933. The McMahon case, note 2 above, dealt with a claim under the Securities Exchange Act of 1934 and RICO.

(4) PaineWebber Incorporated v Farnam, 843 F.2d 1050 (7th Cir. 1988). The Court observed: "The securities industry insists that its customers sign arbitration agreements, which the Supreme Court has sustained in part on the premise that it is desirable to have a cheap, quick method to deal with the disputes (many too small to justify full scale litigation) this industry produces". At p.1052.

Leo Herzel and Daniel Harris are partners in the Chicago law office of Mayer, Brown & Platt.

U.S. $500,000,000

The Republic of Italy

Floating Rate Notes due 2005

In accordance with the provisions of the Notes, notice is hereby given that for the Interest Period from June 30, 1988 to July 29, 1988, the Notes will carry an Interest Rate of $7^{15}/_{16}$% per annum. The interest payable on the relevant interest payment date, July 29, 1988, will be U.S. $63.94 per U.S. $10,000 nominal amount in Bearer (Coupon No. 35) or Registered form and U.S. $1,598.52 per U.S. $250,000 denomination in Bearer for (Coupon No. 35).

By: The Chase Manhattan Bank, N.A. London, Agent Bank

June 30, 1988 CHASE

U.S. $100,000,000

National Bank of Detroit

Floating Rate Subordinated Capital Notes due 1996

Notice is hereby given that in respect of the Interest Period from June 30, 1988 to September 30, 1988 the Notes will carry an Interest Rate of 8% per annum. The coupon amount payable on September 30, 1988 will be U.S. $204.44 per U.S. $10,000 Note.

By: The Chase Manhattan Bank, N.A. London, Agent Bank

June 30, 1988

NOTICE TO THE HOLDERS OF

Sumitomo Chemical Company, Limited
(the "Company")

Bearer Warrants to subscribe up to ¥30,490,000,000 for shares of common stock of the Company (the "Warrants")

Pursuant to Clause 4 of the Instrument relating to the above Warrants, notice is hereby given as follows:

1. On 31st May, 1988, the Board of Directors of the Company resolved to make an issue of new shares of common stock of the Company by way of free distribution to shareholders, of record as at 3.00 p.m. on 30th June, 1988.
2. As a result of such issue, the Subscription Price relating to the Warrants will be adjusted in accordance with Condition 7(A) of the Terms and Conditions of the Warrants and Clause 3 of the Instrument, effective as from 1st July, 1988, Japan time. The Subscription Price in effect prior to such adjustment is Yen 809 and the adjusted Subscription Price will be Yen 785.40.

Sumitomo Chemical Company, Limited
By: Sumitomo Bank, Limited.
as Principal Paying, Warrant and Replacement Agent.

Dated: 30th June, 1988

15th October 1988 Redemption

European Economic Community

U.S.$ 25 000 000 17% Bonds Due 15th October 1993

Drawing of Bonds

Notice is hereby given that a drawing of Bonds of the above issue took place on 8th June 1988 attended by Mr. Frank Baden, notary, when 1110 Bonds of U.S. $ 1000 nominal amount and 164 Bonds of U.S. $ 10 000 nominal amount for a total of U.S. $ 2 750 000 principal amount were drawn for redemption at par on 15th October 1988 from which date all interest will cease. The following are the numbers of the Bonds drawn:

000005	000013	000020	000021	002151	002153	002157	002158	004282	004287	004288	004293
000028	000029	000030	000046	002166	002176	002192	002199	004295	004318	004319	004320
000084	000088	000090	000104	002219	002220	002221	002230	004330	004352	004360	004366
000110	000115	000116	000118	002233	002242	002249	002253	004373	004378	004382	004387
000120	000130	000161	000167	002265	002269	002289	002294	004400	004403	004404	004412
000171	000180	000204	000215	002303	002307	002310	002318	004414	004423	004434	004443
000216	000220	000228	000250	002325	002332	002347	002377	004471	004493	004499	004508
000268	000269	000270	000295	002384	002396	002397	002409	004516	004518	004545	004552
000296	000300	000309	000316	002414	002430	002434	002437	004560	004572	004579	004581
000330	000332	000335	000337	002458	002461	002482	002491	004587	004594	004602	004603
000344	000353	000374	000398	002494	002495	002500	002526	004611	004618	004624	004634
000416	000424	000425	000440	002541	002542	002544	002545	004635	004636	004665	004670
000449	000453	000462	000476	002554	002566	002585	002593	004696	004712	004718	004738
000479	000481	000495	000497	002609	002611	002624	002635	004741	004762	004783	004785
000500	000502	000517	000522	002636	002637	002638	002642	004789	004790	004791	004801
000539	000544	000550	000558	002660	002681	002687	002703	004814	004836	004839	004893
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
007548	007549	007561	007564	009301	009310	009323	009329	011096	011097	011098	011099
007588	007601	007602	007625	009344	009354	009355	009363	011100	011102	011103	011104
007610	007638	007668	007675	009374	009375	009395	009414	011105	011106	011108	011109
007676	007677	007681	007697	009428	009437	009448	009450	011110	011111	011112	011113
007700	007701	007704	007705	009458	009463	009466	009476	011114	011115	011116	011117
007730	007735	007748	007755	009477	009481	009499	009505	011118	011119	011120	011121
007763	007787	007790	007808	009515	009519	009521	009550	011132	011156	011170	011171
007815	007825	007829	007832	009552	009555	009567	009587	011186	011194	011210	011213
007835	007836	007851	007869	009590	009613	009619	009627	011234	011243	011258	011270
007895	007901	007914	007927	009642	009658	009675	009676	011277	011296	011306	011309
007939	007969	007973	007974	009683	009690	009699	009723	011321	011322	011371	011385
007982	007988	007989	007993	009724	009726	009731	009732	011390	011414	011423	011446
008013	008016	008018	008019	009741	009754	009757	009758	011452	011465		
008024	008028	008047	008056	009764	009791	009805	009817				
008074	008098	008089	008113	009818	009822	009824	009839				

The above Bonds may be presented for payment of the proceeds of redemption at par on or after 15th October 1988 at the offices of the paying agents named on the coupons in the manner specified in condition 4 of the terms and conditions of the Bonds printed on the reverse of the Bonds: Each of the above Bonds when presented for redemption must bear the coupon dated 15th October, 1989 and each subsequent coupon, otherwise the amount of the missing coupons will be deducted from the principal to be repaid.

Principal Paying Agent:
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High	Low	Company	Price	Change	Gross div (p)	Yield %	P/E
230	185	Ass. Brit. Ind. Ordinary	230	0	8.7	3.8	8.6
230	186	Ass. Brit. Ind. CULS	230	0	10.0	4.3	
40	25	Armitage and Rhodes	36	0	-	-	-
57	47	BBB Design group (USM)	47	0	2.1	4.4	7.5
162	155	Bardon Group	160xd	0	3.3	2.1	22.5
112	100	Bardon Group Conv. Pref.	112	0	6.7	6.0	-
148	137	Bray Technologies	141	0	5.2	3.7	10.2
107	100	Bremhill Conv. Pref	107	0	11.0	10.3	-
276	246	CCL Group Ordinary	276	+1	12.3	4.5	4.2
150	124	CCL Group 11% Conv.Pref	150	+1	14.7	9.8	
151	129	Carbo Plc (SE)	144	+1	6.1	4.2	9.2
112	100	Carbo 7.5% Pref (SE)	107xd	0	10.3	9.6	
273	147	George Blair	273	+3	3.7	1.4	7.6
94	60	Isis Group	94	0			
118	87	Jackson Group (SE)	116xd	0	3.4	2.9	12.8
340	245	Multihouse NV (AmstSE)	330	0	10.4	3.2	13.1
52	40	Robert Jenkins	51	0			2.4
326	124	Scruttons	326	+4	8.0	2.5	29.6
208	194	Torday & Carlisle	208xd	+1	7.7	3.7	7.7
96	56	Trevian Holdings (USM)	89	0	2.7	3.1	9.6
110	100	Unistrut Europe Conv Pref	110	0	8.0	7.3	
289	203	W.S Yeates	289	+2	16.2	5.6	7.9

Securities designated (SE) and (USM) are dealt in subject to the rules and regulations of The Stock Exchange. Other securities listed above are dealt in subject to the rules of TSA

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NOTICE OF COMPLETION OF MERGER

Bearer Warrants to subscribe up to ¥15,470,000,000 for shares of the common stock of

MATSUSHITA ELECTRIC TRADING CO., LTD.

(Now merged into MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.)

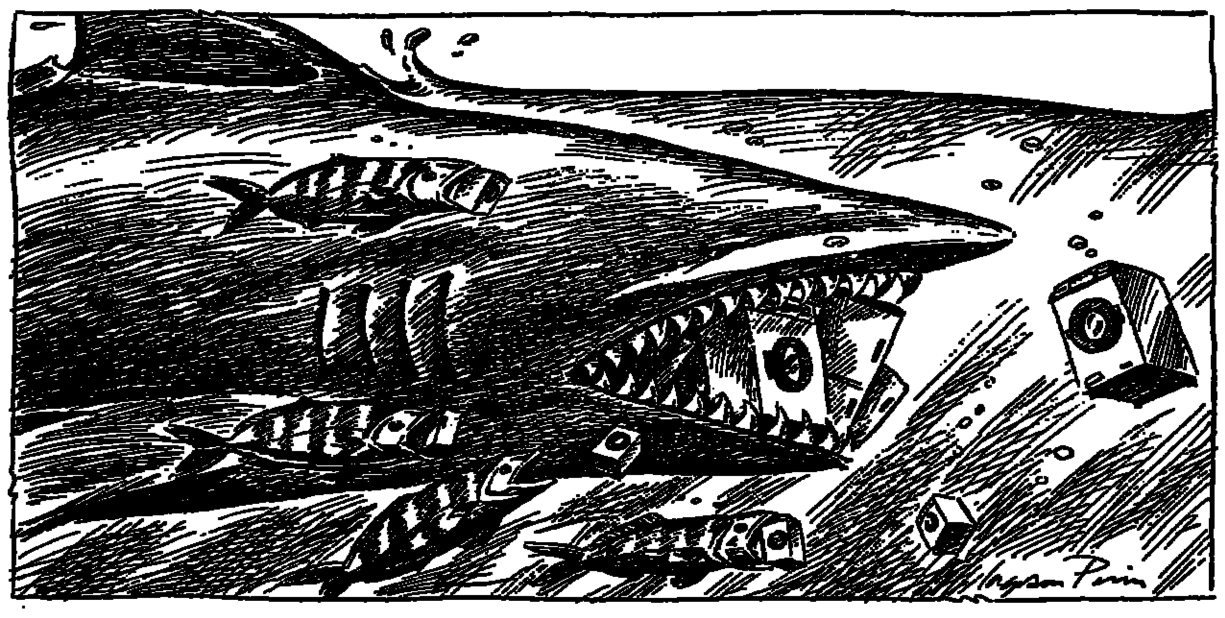
Reference is made to the Notice Concerning Merger dated 9th February, 1988 published by Matsushita Electric Trading Co., Ltd. ("MET"), a Japanese corporation, with respect to Bearer Warrants to subscribe up to ¥15,470,000,000 for shares of the common stock of MET, which informed the holders of the said Warrants of the merger of MET into Matsushita Electric Industrial Co., Ltd. ("MEI"), also a Japanese corporation. The terms of the merger, as stated in the Notice, were that MEI should succeed to all the business, assets, rights and obligations of MET and after the merger the holders of the said Warrants would become entitled to subscribe for shares of the common stock of MEI having a par value of ¥50 per share by exercising their Warrants, but that there would be no adjustment in the subscription price applicable to the Warrants as a result of the merger.

Pursuant to the laws and regulations of Japan, the above merger became effective as of 30th June, 1988 and the holders of the said Warrants are now entitled to subscribe for shares of the common stock of MEI having a par value of ¥50 per share and should note that in all other respects MEI is substituted for MET under the Warrants and the Instrument under and pursuant to which the Warrants have been issued and are outstanding.

Matsushita Electric Industrial Co., Ltd.

Dated: 30th June, 1988

MANAGEMENT



How the nimble can fish in competitive waters

Christopher Parkes on the role of smaller players in Britain's white goods industry

THE PILOT fish leads a precarious existence. Swimming gaily under the shark's nose – a habit which earned it its name as a supposed pathfinder – it thrives on the leftovers from its travelling companion's lunch.

Accidents can happen to the less nimble or the more presumptuous fishes, but the relationship is broadly stable, even though ultimately the balance of benefit is tipped generously on the side of the small fry.

A similar connection has developed between the big fish and the tiddlers of the kitchen appliance industry. The overall market is dominated by leading names which can supply the increasingly concentrated retail business with a full range of white goods from one central buying point. Their heavy advertising budgets which liven up consumer interest in all appliances help to create an environment in which smaller companies can prosper.

There are, of course, conditions. The little fish must be careful not to compete head-on; they must keep pace with product and market development – and it is important for them to remember who's buying lunch.

The depleted *ranks of the British* white goods industry contain several companies which successfully live with these rules, even occasionally bending them.

Lec Refrigeration of Bognor Regis on the Sussex coast is a durable example. Its current strength owes much to a bold move in 1980 when all its competitors were shrinking back from recession. Lec put its workforce on full overtime, cut prices and cranked up its share of the refrigerator market from 11 per cent to 24 per cent. This has since fallen to around 19 per cent. But Donald Durrant, joint managing director, says: "We will get a lot of repeat business from those satisfied customers."

The overtime ended in late 1986 and, Durrant acknowledges, a fresh bout of price-cutting would be "dangerous" for everyone in the business.

The UK market has stabilised recently. Price increases have not been eroded by the rampant price-cutting which characterised the dark days of the 1970s when exporters from all over Europe tried to buy market share. The new order in the market place and the recent improvement in the industry's profitability depend on the discipline of the participants. While Lec makes refrigerators and competes in the market overall with the Electrolux, Zanussi, Philips and Hotpoint brands, it tends to operate within a price band spanning the low to mid-price range, a little below the majors.

Therefore, although Lec does not offer a convenient white goods package offering everything from cookers to washers, it is favoured among retailers because it fits into a specific price segment, increases consumer choice, and because shoppers have considerable *faith* in the brand.

Lec relies on consistent quality to preserve this brand loyalty. Although there is relatively little to go wrong with a refrigerator, a service call to replace a compressor can cost over £130 and may cost the company a customer for a replacement fridge. "We can't take the risk of putting out unreliable machines," Durrant says.

Servis, the home laundry company, was once a market leader with a fine reputation for innovation. It introduced the electric washing machine to Britain. It made the first machine with a pump and was the first into electronic controls. It had a factory in Australia, exported to Canada, and even had its own service network in West Germany.

Now it has contracted to a single site in Darlaston, near Birmingham, with 5 per cent of the UK washing machine market, while Hotpoint's share climbs towards 40 per cent.

Bought from the receiver in 1985 by entrepreneur Alf Gooding, it changed hands again in January this year through a US-funded £8m management buy-out which gave control to Graham Young, financial director, and Kevin Moat, commercial director.

"The company's history is dotted with lost opportunities," Young says. "It boils down to bad management."

But Servis still has its strong points. First, it has sympathetic bankers in Security Pacific of the US (which came up with the buy-out cheque in two weeks flat). Second, the brand is still widely known, even if it has a rather middle-aged image. And there are still 1m Servis machines in use in the UK. Even though brand loyalty is not what it was in appliances, Servis can count on a healthy proportion of that figure returning to its products when the time comes for replacement.

Perhaps most important in the medium term, the company also has 300,000 contract service customers, whose annual payments currently account for almost 40 per cent of turnover. Apart from the obvious cash flow benefits, these clients give the company a core mailing list which Young plans to put to good use as new products are rolled out.

There are also problems. Worst is an indifferent reputation for quality, which pushed the company into the arms of the receiver in the first place, according to Young.

He was not best pleased by recent consumer magazine and television test reports which marked Servis down in the quality rankings. The tests, he says, were done on machines made before receivership. His indignation is justified to some extent. Servis is the only appliance maker in the country to be certified as having achieved British Standard 5750, the newly-introduced national standard for quality manufacturing systems.

But the test findings give some indication of the ground the company has to make up. Young has started by introducing quality circles, reducing the number of suppliers by 50 per cent and demanding that the rest match BS5750 requirements.

Working retroactively on machines already installed, the company has armed its Servis Homecare engineers with a list of parts which have given trouble in the past. They are under instructions to check and replace them if necessary on all their calls.

At the same time, the company is working to maintain the goodwill of the multiple chains which dominate the retail trade. The modern chain retailer is interested mainly in rapid sales, high turnover...and no come-backs. It has little time for the costly and bothersome business of service and, consequently, manufacturers with poor quality or reliability records will be squeezed.

Accordingly, much of Servis's promotion budget this year is being spent on assuring the trade of the company's commitment to quality.

Still, there are plenty, apart from Young, who consider Servis a sound investment. At the time of the buy-out his team faced competition from five other bidders, including a Japanese company. Since taking over he has had one offer to relieve him of the company and leave him with a profit.

Had they known about Gooding's sell-off plans, Derek Clee and David Cross might have made the competition stiffer. Almost two years ago they set up their Crosslee tumble dryer company from scratch inside the echoing vastness of the former Philips washing machine factory in Halifax. Following the strategy of its Swedish competitor, Electrolux, the Dutch multinational had decided to centralise its European production, and had chosen the continent as a more promising base.

Now firmly entrenched in their specialist niche, Cross and Clee are anxious to broaden their interests. Cross is aggrieved that the company was not approached when Servis was being touted around potential buyers. "People still think of us as a new management buy-out," he says.

From £13m in 1986, sales rose to about £22m last year and are on the way to £30m in 1988, all built on a single initial contract to supply Philips with driers in Europe. Like Servis it found backing in the US, from Bankers Trust of New York. "We had no support *at all* from the *Government or local* government. British banks were not interested," recalls Clee.

Although helpful and polite, official agencies were not encouraging. The British Overseas Trade Board, for example, warned them against trying to compete in West Germany. But the bluff duo went anyway and recently signed up three distributors.

As often as not lugging their products with them they have trawled world markets and now export to almost 20 countries ranging from Paraguay to Iceland.

Their latest advance was in Australia *where they have found a* niche in a market where Hoover and Simpson share 98 per cent of sales and where the topsy-turvy climate helps iron out irregularities in a demand cycle which peaks in the European winter.

Two thirds of Crosslee's turnover now comes from overseas, and the company was almost single-handedly responsible for last year's 63 per cent rise in UK dryer exports.

At the start it sold all its output to Philips on a two-year rolling contract; now it sells only 50 per cent of production through the Dutch company and aims to whittle that down *to a third*. There is plenty to go for. Household penetration of tumble dryers is around 30 per cent across Europe, compared with 87 per cent for washing machines, and the replacement market has not been touched.

As one of only two large-scale dryer specialists in Europe, Crosslee has tapped a rich vein of demand from manufacturers and retailers seeking equipment for sale under their own labels. Although it boasts of having won Europe's biggest single dryer contract from Currys, its own brand, White Knight, is little recognised outside the company's Yorkshire stamping ground.

One danger must be that the growing market may attract newcomers, or worse and more likely, encourage the major white goods makers to start their own production lines.

Crosslee has succeeded in diversifying away from the single customer it had at the outset, and it is now looking at opportunities in areas such as commercial equipment for laundries and specialities like washroom hand dryers.

Broadening out into other domestic appliances could be a ticklish proposi*tion, however. Cross and Clee may yet* have cause to be thankful that the mainstream UK domestic appliances industry has been thoroughly picked over by patrolling sharks, and there are few small fry left to tempt the likes of Crosslee out of their proper place in the pecking order.

UK telecommunications

Making calls on a great name

Philip Rawstorne reports that Mercury's campaign aims to consolidate its advantages

MERCURY COMMUNICATIONS has spent £2m over the past six weeks in advertising its arrival as a realistic alternative to British Telecom – a modest outlay compared with the £500m investment so far in its national fibre-optic network.

But then Mercury has been at pains not to promise more than it can deliver. A corporate push had been ruled out before now on the grounds that it might attract more customers than the company *could properly service*.

Mercury, however, is coming into profit. It has 20 per cent of international calls, 5 per cent of Britain's business market – its City of London clients include the Stock Exchange, five major clearing banks, all 27 market-makers and five of the six inter-dealer brokers – and 15 per cent of the telex market.

Development has now reached the point where it can compete confidently with BT for long-distance and international *calls.More than half the* population of England has access to its network. Next month it plans its first challenge to BT's public payphone service.

One of Mercury's great advantages so far has been the scale of dissatisfaction among BT's customers. But that has been offset to a large degree by the lack of public awareness of Mercury as an alternative system, or by doubts about its effectiveness.

The advertising campaign, devised by BMP Business, has been designed to raise its profile; to establish the Mercury brand with its claims of better technology, better service and better prices; and generally place Mercury as a dynamic and efficient newcomer, capable of providing real competition to BT.

The campaign was launched with a 60-second television commercial in six ITV regions – Granada, Thames/LWT, TV South, Central, Yorkshire and Scottish TV. (It is operational now in Glasgow and Edinburgh.) *It was supported by double-page* advertisements in the national press.

Jonathan Hoare, BMP Business board director, says: "We wanted the business community, in particular, to know that at long last there was a choice in telecommunications."

Directed by Chris Hartwill, of Ridley Scott Associates, the television commercial heralds the arrival of Mercury by intercutting telecommunications images with key customer benefits – substantial savings on long-distance telephone calls, fully itemised bills (more popular, apparently, with businessmen than householders), and, it is claimed, unbeatable customer service. (One of Mercury's first *acts was to set up a customer* assistance service.)

The soundtrack features a Phil Collins song, In The Air Tonight, re-released by Virgin Records to coincide with the ad's launch last month and now at No 8 in the charts.

Hoare claims that the advertising has also quickly made Mercury a hit – "a great name to call on," as its slogan goes.Telephone marketing agency, Adlink, is handling the response to the advertisements, analysing the information they have yielded, supplementing it with detailed questionnaires, providing leads for the sales force, and building a computerised database.

The next stage of the advertising campaign will be aimed at target audiences identified by this research programme. But inevitably, it seems, Mercury will look primarily to the business community to generate most of its early growth.

Hoare denies charges that this concentration on the business market amounts to "cherry-picking". It is the natural path for Mercury to pursue, he says.

It is understandable that Mercury's parent, Cable & Wireless, should now be looking for some return after spending £500m in the past four years, and earmarking another £200m for future investment. The City looked delighted last week by the course of events.

But, says Hoare, Mercury intends to become a fully-fledged competitor to BT in every field of *telecommunications. Future* advertising will continue Mercury's image building, make it better known to a wider public, but prudently ensure that in offering its services, it does not disappoint by over-reaching its resources.

Research format passes test

Clive Cookson on a project that encourages industrial/academic co-operation

A GOVERNMENT sponsored assessment of the UK's first research programme where both university and company involvement are required, called the Joint Opto-Electronics Research Scheme (JOERS), has shown it to be a good model.

JOERS was set up in 1982 to encourage industrial/academic partnerships in opto-electronic research – a fast-moving field which includes optical computing, fibre optics and liquid crystal displays. The scheme is now finished and most of the JOERS projects are in their final stages.

The assessment, carried out for the Department of Trade and Industry by the consulting group PA Technology, concluded that JOERS "has been highly successful in advancing the UK's position in opto-electronics."

The main points of the study were released this week at a DTI conference. The assessment was based on interviews with 92 people from industry and universities who had taken part in JOERS; it was not a detailed "technology audit".

Total expenditure on JOERS was £36m. The DTI and participating companies provided £14.5m each, and the Science and Engineering Research Council (SERC) provided the remaining £7m through the universities.

The same funding formula, in which the DTI pays 50 per cent of the companies' costs and the SERC pays all the universities' costs, has since been used in other Government sponsored research schemes. "The overwhelming *view of the participants* was that the funding equation for JOERS was fair, and that is why the scheme had such a good take up," says Rodney Smith, a senior PA Technology consultant.

Smith points out that the funding formula for the Government's Link programme – currently the main vehicle for supporting collaborative research in the UK – is less favourable to companies. The Government now only pays for half the universities expenditure, leaving the companies to find the other half. Smith suggests that this may explain why industry has not yet gone into Link as enthusiastically as it went into JOERS.

According to the PA Technology assessment, the key successes of JOERS were:

- A high level of collaboration between participants from different companies. Rivals such as STC, GEC and Plessey worked together openly and productively.
- Stimulation of pre-competitive research in opto-electronics.
- The UK gained a technical lead in some of the project areas. Examples include the use of new opto-electronic materials such as Lithium niobate and Indium phosphide.

JOERS has not, though, been a total success. Negative aspects of the scheme include:

- *Withdrawal of some participants in* the middle of a project. Smith says there were a few cases in which companies withdrew from successful projects as they got close to commercialisation. This caused serious problems for the remaining participants. The study recommends that future government research programmes should impose financial penalties on companies that leave prematurely.
- JOERS was dominated by the giants of the UK electronics industry and small companies were not sufficiently involved. PA Technology recommends more encouragement for the latter.
- Most seriously, not enough has been done to exploit commercially the technical advances achieved by JOERS. The Government is urged to do more to promote commercial exploitation of opto-electronics by UK industry.

But Ken Macrae, chief executive of PA Technology, says: "The JOERS initiative has raised the awareness of the importance of opto-electronic technol*ogy to British industry and has been* successful in advancing the UK position."

Old problems take the shine off new system

Stephen Cooke finds that computerisation has not alleviated the difficulties of India's overburdened rail system


A typically crowded train travelling through the eastern state of Bihar

THE COMPUTERISATION of India's rail network has lessons for anyone contemplating a technological solution to an everyday problem.

India depends heavily on its rail network and economic growth has increased the burden, especially as travel by road is hazardous and coach fares can be as much as those for rail. Although the efficient internal air service is cheap by Western standards, it remains beyond the reach of most Indian travellers. As a consequence, tourists, businessmen and most other travellers invariably go by train and the strain is beginning to show.

Last year the network carried 3.6bn passengers and demand is still rising. Prior to computerisation, red tape meant that booking a ticket required:

- finding the appropriate booking hall and locating a ticket booking form. These are often hard to get hold of and people behind the counters are far too busy to fetch them;
- filling in your name, age, sex, destination, train number, class of travel, plus similar details for your travelling companions;
- *finding the* correct booking window for your train, class of travel and status (if a tourist);
- waiting in a queue for as long as two hours while more assertive characters claim personal acquaintance with the booking clerk and jump the queue;
- being told that you must repeat the process, because the seat you require is not available.

In an effort to improve this system and decrease ticket issuing costs and delays, computerised reservations and ticketing were first tried out in Delhi and, after an apparently successful trial, extended to other parts of the country.

In July last year, the system was installed at Bombay's Victoria Terminus station and was soon busily processing nearly 50,000 transactions a day. The project cost 1.7m rupees (£71,000), a huge sum by Indian standards.

According to Vijaya Singh, general manager of the Central Railway Zone, the new system solves many of the old problems. It enables reservations to be made at any window; it keeps a tally of available seats and makes this information available to the public; it interfaces with other zonal railway systems within the country so that trans-zone journeys can be properly dealt with; it aims to shorten queues by reducing the ticket issue time from six minutes to two and a half.

In practice, however, things are not so rosy. To start with, the emphasis has been on processing applications, rather than on streamlining the physical act of making a reservation. Thus you still have to fill in a form with irrelevant details, you still have to locate that form and the staff are still too busy to get one for you.

The information on the form has to be entered into the system, so instead of the computer doing all the work and issuing the ticket, the customer has to provide the detail, the clerk has to enter it and the computer just processes it. Savings are therefore limited to statistical handling of seat availability.

The system does tell the passengers which seats are available using, in Bombay, a conspicuously high tech noticeboard. Again, the benefits are negated by poor planning – the noticeboard is downstairs, the booking hall is upstairs. Even worse, the noticeboard is only updated in the mornings, so by the afternoon the information is out of date.

Finally, with every booking window open to all-comers, things can become chaotic as operators attempt to deal with dozens of different queries and bookings on a new system for which they have had inadequate training. Incorrect information on the noticeboard about seat availability also puts the onus on the operator to determine the true state of affairs for each customer.

All this has been aggravated by hardware problems caused by insufficient ventilation and unreliable power supplies. Although now operating more smoothly, breakdowns and public outcry were frequent in the months following installation.

Just the ticket for British Rail

THE UK's rail network handles 698m passenger-journeys a year with annual growth of around 0.5 per cent. British Rail (BR) has introduced two computerised ticket systems, APTIS and PORTIS. Manufactured by Thorn-EMI, they do far more than simply make reservations.

APTIS (All Purpose Ticket Issuing System) makes the reservation, assigning the applicant to the appropriate class, smoking/non-smoking area and back/forward facing seat. It is linked to BR's accounting network. You certainly do not have to fill in a form to use it.

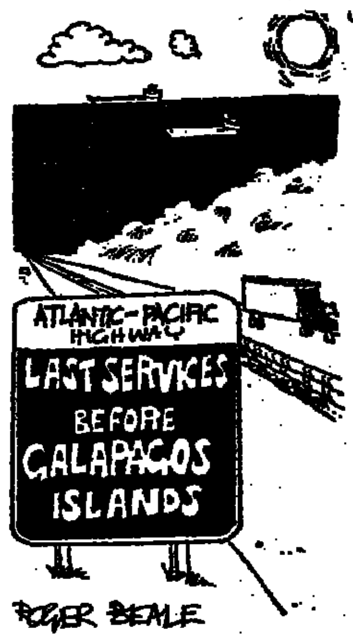
PORTIS is the same basic system in a portable configuration, enabling guards to issue tickets on pay-trains. The PORTIS modules can also send data, for example about receipts and ticket issue, into the central accounting network.

BR is happy with its experience of computerisation. "It has speeded up the issue of tickets, is more cost effective, has reduced queues and ties in with the accounting systems. It has been very successful," says David Ewart, a spokesman at BR.

Stephen Cooke is editor of ACE, the computer entertainment magazine.

Japanese mission to study oceans' link

BY STEFAN WAGSTYL IN TOKYO



PLANS FOR an overland route linking the Atlantic and Pacific oceans, once *the dream of* the Conquistadors, took a small step closer to reality with news that a Japanese technical mission is to examine the feasibility.

When the Japanese team goes to Columbia next month, their work will include studying a Columbian Government scheme to build a motorway, a railway and an oil pipeline. The project would involve the construction of a new port on the Pacific coast in the Gulf of Cupica. It would be connected by road, rail and pipeline to the Gulf of Uraba on the Atlantic coast.

In addition the Government wants to build a motorway from Cupica to the inland city of Medellin, which is notorious for its links with the cocaine trade.

The announcement of the Japanese technical mission comes at a time when political turmoil in Panama has cast fresh uncertainty on an often-touted scheme to build a second Panama canal alongside the first.

The Japanese Ministry of Foreign Affairs says that the mission's role will be to explore several development projects in Columbia – including the Atlantic-Pacific link.

Japan's recently expanded foreign aid budget is funding the study, which does not commit Japan to contributing to the costs of the project when, or if, it is carried out.

Software package cuts exporters' paperwork

BY ALAN CANE

EXPORTERS plagued by the paperwork which is a tiresome, if essential, part of their job should be pleased to learn that SITPRO, the British Overseas Trade Board's organisation aimed at making international trade simpler, has produced a new version of SPEX, its trade documentation software package.

SPEX 3 runs on most leading makes of microcomputer including multi-user systems; it produces invoices and a range of more than 50 documents to international standards.

The UK distributor, ESL Computer Services of Beckenham in Kent, has made a video, entitled All about SITPRO Spex, which shows the package in action. *It* features a shipping manager preparing a deep sea export, against a stopwatch, using the latest version of the package. Multiple copies of all the necessary export documents, including export invoice, packing list, export cargo shipping instructions and bank and bill of exchange form, are prepared automatically in seven minutes.

As well as generating high quality documentation, Spex stores full details of customers, products and other information on disk. It calculates weights, cubes, invoice values and currency conversions and allows freight charges to be added.

It also has communications facilities, which means that information normally printed on paper can be sent electronically to freight forwarders and shipping lines – a foretaste of "paperless trading".

Spex 3 costs around £2,500. The ESL video is available in VHS, Betamax or U-matic format on free loan. For a copy contact Lesley Oliver at ESL on London (01) 658 7821.

ARTS

Venice Biennale/William Packer

Hard sell of Jasper Johns

Jasper Johns, who fills the US pavilion with his work of the past 14 years, won the Golden Lion of the Venice Biennale of 1988 after all; this was both the safest bet and the biggest disappointment of the week. It was no secret that the American lobby was out in force and working hard for its man, but even so the more disinterested view was that the decision was hard to justify solely on the work shown.

It was a clear case of the triumph of reputation over substance. Johns is without question a major figure, but it is also true that it was his work during the 10 years or so from 1955 that secured his standing. That standing now commands the market, and Johns is accorded a prestige and concomitant market rating that puts him on or above the level of a Matisse or Bonnard or Degas.

There are two wings to the elegant neo-colonial American pavilion: the one to the right holds Johns's cross-hatchings of the 1970s – regular, all-over fields of simple counter-pointed strokes of paint that build up into dense and intriguing impasto surface. But Johns finally grew bored with this engaging but essentially decorative formula and during the 1980s has concerned himself with more openly portentous thematic schemes culminating with the Seasons, the natural turn of the year from birth and spring to winter, death and the preoccupations of the older man. These fill the other wing.

We might expect of such a master in such a mood something magisterial: what we get is a roomful of slack and self-congratulatory canvasses, large enough to draw too much attention to themselves, and too large to hide. The drawing is weak and flaccid, the handling heavy, dull, inept.

To quote from other artists and another age is always tricky but, given a certain technical verve, can work. Johns employs a collage method, setting element against element. One that particularly takes him is a female head from a cartoon of 1915, with a high coiffure and feathered hat, half turned away. It is the kind of image that was the currency of its time, which a Lautrec, Sargent or Helleu would invest with a peculiarly potent liveliness. It is a strange arrogance in Johns that he should care to quote such an image and yet give it no life at all. The perversity in his champions lies in their choosing not to see the difference.

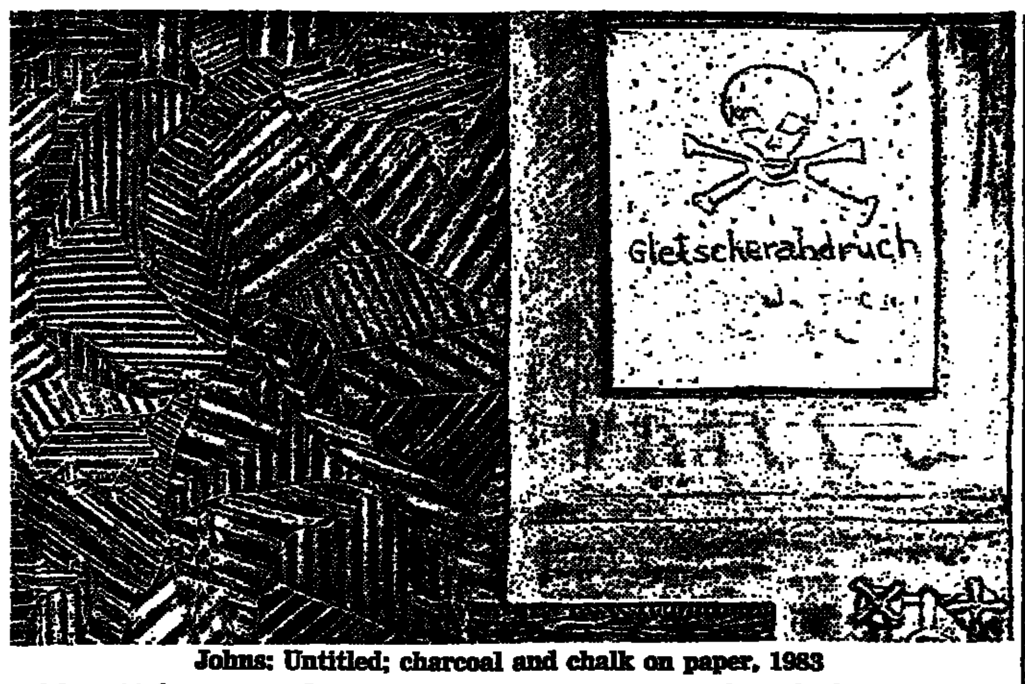
Barbara Bloom, 36 years old and working in New York, won the Aperto prize for artists under 40, for which victory the American lobby worked – so my spy tells me – with even more conspicuous a ruthlessness. Miss Bloom offers an installation of some elegance that finally has several hats floating in a blue void. It would serve admirably in a shop window on Fifth Avenue, but hardly deserves such distinction. By direct contrast, Tatsuo Miyajima from Tokyo may count himself unlucky, for his darkened room enlivened by countless twinkling digital counters on the floor was at least witty in its essential triviality. Unluckiest of all was our own Tony Bevan, whose large punk portrait figures were the best paintings, as paintings, in the whole of Aperto.

Back at the Biennale proper, Tony Cragg in the British pavilion was unlikely to win the main prize, but he was deservedly commended for a simple and impressive display of his work of the 1980s. The misgivings one had had was that this was not perhaps the moment to show him, coming so soon after his major retrospective at the Hayward Gallery last year, since his work has yet to have move on. In his assemblies of large, assorted vessels, with their ambiguously visceral or sexual connotations, the feeling is still more of elegant variation than enquiry.

In the Japanese pavilion Katsura Funakoshi shows the most extraordinary sculptures of the entire Biennale, and some of the most beautiful objects being made anywhere. Again they were unaffectedly straight-forward – directly observed half-length portrait carvings that have something of the simple, poignant humanity of late medieval Flemish figures. The Japanese pavilion was thoroughly interesting, but, with three sculptors shown, overfull.

The best painting of the Biennale was in the large Yugoslavian pavilion, which Janez Bernik filled with an extended series of strong, simple expressionist works on the theme of the Deposition and related subjects.

Zadok Ben-David, who studied and worked in London, fills the Israeli pavilion with his sculpture. He deals with figurative and symbolic imagery which can be strongly graphic, especially in isolation, at the expense of the more formal qualities of the work. Here however, we have the best show of his work I have seen.



Johns: Untitled; charcoal and chalk on paper, 1983

Janet Henfrey and Linda Marlowe

Alastair Muir

Too Clever By Half/Old Vic

Michael Coveney

This version of Ostrovsky's 1868 play was prepared in the late 1940s by Rodney Ackland shortly after David Magarshak had introduced the piece to English readers under the more accurate title *Even a Wise Man Stumbles*. "Chaque texte n'est qu'un prétexte," said the eminently sensible Mounet-Sully, and Richard Jones's spiritedly outrageous Old Vic revival sets off on an inspired antiquarian angle.

This approach is based on a blithe but gross misconception. That Ostrovsky's intelligent and malicious scoundrel Gloumov (Ackland's first title was *Diary of a Scoundrel*) is a close cousin of Gogol's Khlestakhov. His innocence is of a different order, but Mr Jones piles in anyway with lots of ideas filched from Meyerhold's famous 1926 production of *The Government Inspector*.

Like Richard Eyre's unfunny NT revival, he is obsessed with large inky blodges, Daumier-like caricature, frozen irate tableaux and ghastly expressions.

I confess to being in two minds about it all. Alex Jennings, a notable yuppie Lucio in last year's Stratford *Measure* only reveals his objective cynical hand at the end. By which time he has wheedled his way into the trust of a decrepit uncle, seduced the old boy's wife, written speeches for a reactionary general and wormed his way to the forefront of Moscow society.

Jennings plays Gloumov as a chameleon, changing voice and demeanour to order, now assertive, now whining, now common, now classless. His hair stands up like a privet hedge, smarmed down on one side to display a Mohican-style centre parting.

The oddness and angularity are carried through on a larger design scale devised by the brilliant Richard Hudson (responsible for Miller's *Andromache*). The stage tilts and leans, heaving with the Constructivist perspectives and pictures favoured by Meyerhold and Tairov. One striking image is propounded in the speech of a table that, upturned, might represent anarchy. The world, and furniture, turned upside down. The third act seance scene in a great tunnelled room of the wealthy pious widow (Rosalind Knight) becomes a spiritualist elaboration on a material metaphor.

Gloumov's tactic of keeping a critical diary on the people he exploits misfires when his uncle's wife, played hilariously by Linda Marlowe as a Russian Joan Collins in garish pink tutu and false teeth, discovers it in a drawer and exposes him to general ridicule. A prelude at the ballet had prepared us for the excesses of this relationship, Gloumov eyeing Mamaeva from a box at *The Sleeping Beauty*.

The Gogolian takeover is complete at the end when the scratching Meyerholdian pen is taken up by Gloumov in another box after fleeing the society he has monitored. Jennings is resourceful and very funny throughout, but he misses entirely the aspect of experimental adventurousness in the character's exploits. Judging by the discrepancies between Magarshak and Ackland, he is not solely to blame for this.

The *perestroika* debate so uncannily prefigured in this play, in the speech-writing of a treatise on the harm of reforms in general, is skimped. So is the issue of journalistic hounding with a view to bribery. For all its undoubted animation, the production is more consciously historical than convincingly hysterical.

It is good, though, to see a fine young actor taking command. He is well supported by Janet Henfrey as his mother and Julia Bardsley as a nutty betrothed. Peter Wear stood in admirably for the suddenly indisposed Timothy Barlow on the first night and made of the old reactionary Kroutitzky (the Stanislavsky role) a sinister, spidery decadent.

Pommies/Croydon Warehouse

Claire Armitstead

David Allen's relationship with Croydon's Warehouse theatre has been distinguished by plays stuffed to the gunnels with the social and literary heritage of a homeland he abandoned for Australia back in the early 1970s. With *Cheapside* he took a trip back to Elizabethan comedy and with *Glorious Things* he excavated the curious jingoism of the Victorians. With *Pommies* he declares his antipodean perspective on a situation a lot closer to home: set in the "veg prep" shed of a holiday camp in 1954, he introduces his callow young Aussie narrator to the rites and rituals of a group of English working men whose prowess at gouging eyes from potatoes is second only to their ability to carve sexual fantasy from anything that walks abroad in a red coat.

All have been diverted from the mainstream due to some quirk of mental or physical make-up – Charlie is a lovable simpleton from Nottingham, Neville a ted who swaggers from conquest to conquest in a metal corset, and Arthur a schoolmaster who lost his position because of his susceptibility to jail bait. They are ruled from the top of a rickety staircase by Stan, a blustering Ulsterman whose attempts to impose discipline – chiefly centred on the vexed issue of brewing tea – are met with the collective indifference of a workforce which knows its own rhythm and will tolerate nothing else.

A grudging acceptance to the ranks and an unconsummated love affair with a glamorous Australian emigrée redcoat add up to a bruising majority for the young Ray (Patrick Toomey), whose 21st birthday revels are rudely interrupted by the discovery of a rat-eaten body under the potato-peeling machine (a piece of hardware that dominates Michael Pavelka's warehouse set).

The theme of a student angling – fruitlessly, it turns out – for integration into the working-class carries with it an authentic whiff of the Fifties, except of course that this is not really the working class. The play shows its Australian provenance in characterisation that is brash and, despite Ted Craig's efforts to tailor it to the British stage, lacking in any solid sense of social context beyond occasional references to war service and food shortages.

Talk of "rogering the memsahib" smacks of a comic strip appreciation of English postwar mores, however liberally it is larded in irony by Gary Raymond's intoning schoolmaster. While it might seem hilariously apposite to a Melbourne audience, its effect here is to leave Arthur flapping at the edge of credibility. Closer to the mark are Glyn Sweet's fiercely territorial ted and Derek Crewe's roly-poly Charlie, whose childlike simplicity and generous sense of humour supply the piece with its one wholly rounded and original character. The play's real subject – the struggle for self-definition of the young Australian confronted with the mother country – remains undeveloped and remote until the final 30-years-on oration.

La Gioconda/Barbican Hall

Rodney Milnes

It is good to hear Ponchielli's opera every now and then just to be reminded how truly terrible it is. Otherwise forgetfulness might lead one to start pressing it on the Royal Opera – heaven forbid. It's not just that the plot is preposterous, though it is, rather that the relationships are, and without relationships that have context and potential for development, opera is nothing. Nor does the music serve to disguise the plot's shortcomings. Ponchielli has no lack of ideas, but he seems incapable of seeing them through: how often does an arresting melody, whether a "big-tune" postlude or a formal aria/duet paragraph, start promisingly only to fizzle out through lack of wind. Set next to Verdi or, not wholly unfairly, Puccini, he sounds like the merest beginner.

But I suppose *Gioconda* is a "good sing." That, at least, is how the Chelsea Opera Group tackled it – and cast it – at Tuesday evening's concert performance. Chorus and orchestra surpassed previous known form with full-blooded, rousing performances under the heartfelt guidance of Antony Shelley, who plainly revels in the score and proved capable of communicating his enthusiasm not only to his forces but also to the audience, who were generous in their appreciation.

The leading roles were in the capable hands of Pauline Tinsley and Elizabeth Vaughan, the sort of artists who might have been heard as Gioconda and Laura had the Garden or Coliseum embarked on the piece fifteen years ago. Their voices were ideally contrasted, Tinsley's as ever swordlike in its brilliance and tonal security, Vaughan's attractively husky and warm. They combined sturdily in the third-act duet, rising to a properly ear-splitting unison B flat – or perhaps more truthfully near-unison. Perceptible tiredness affected Tinsley's pitch more than once, but never the authentic grandeur and generosity of her phrasing.

Enzo is the sort of heroic role virtually impossible to cast nowadays. Marc Benedict, a young tenor completing his studies at the Opera Studio, got through it with much standing on tiptoe to reach high notes – adding that touch of the wonderful world of Disney so often hovering close to the opera, not least in the "Dance of the Hours" – and a sharpening of pitch under pressure that makes one hope piously this is his last assault on the role for many years. Barnaba has little to do other than rant and show of his top, which Brian Kemp did very effectively. Nuala Willis sang La Cieca's solo most sensitively, and Roger Bryson (Alvise) notched up the rant-quotient appreciably.

That's enough *Gioconda* for many a long year.

Placido Domingo/Covent Garden

Max Loppert

Placido Domingo withdrew from his five Royal Opera performances of *Lohengrin*, but offered two concerts of operatic excerpts in part-exchange. He also invited three other singers – Cheryl Studer (soprano), Eva Randova (mezzo), and Thomas Allen (baritone) – to help him fill out a decent measure of solos and duets, and John Barker was placed in charge of the Royal Opera House Orchestra. The programme for both concerts, last Tuesday's and next Wednesday's, is the same, and EMI is taking a "live" recording for future release.

In spite of the sold-out house and the air of expectancy in the audience, Tuesday evening was not exactly An Occasion – the voices are all fine ones, and the bill of fare was attractive, as these things go, but much of the concert (first half particularly) seemed to hang fire. (A more spirited orchestral response could have kindled a few sparks much earlier.) Miss Randova, who sang Santuzza's and Eboli's big solos as well as in the Amneris-Radames duet, threw out some fiery dramatic-mezzo phrases, with lots of passionate gear-changing between registers, but communicated little either in her words (which were several times split apart for breaths) or by her demeanour.

Mr Allen was in slightly less than best voice; he was Marcello to Mr Domingo's Rodolfo in the Act 4 *Boheme* duet, which both singers graced with a rueful touch, lightly and affectionately, as they do together in the theatre; and then he was Verdi's Posa in his death scene, noble and ardent (but why on earth the use of Italian, when *Don Carlos* was written in French, and when Mr Allen generally sings it, excellently, in that language?). Miss Studer came on in the second part to lift flagging spirits with a zestful *Fledermaus* czardas; the voice seemed a touch narrow-bore in timbre for Adriana Lecouvreur's entrance solo or for Verdi's Desdemona in the Act 1 duet with Otello.

Mr Domingo produced a resumé of some of his choicest Royal Opera roles (Vasco da Gama, Dick Johnson, Rodolfo, Radames, and of course Otello), plus Verdi's Macduff (the Act 4 aria, freely but perhaps a little unvariedly poured out) and two zarzuela airs, given with the elegance and distinction of manner that good light music needs to charm the audience, as it did here. It was at this point in the second half that the tenor's fullest artistic range, as well as his fullest palette of nuances, was brought into service; and these were retained for the *Otello* Act 1 duet and Death Scene, which was acted, and *felt*, with all the expressive means at the singer's command – tone-colour, verbal pressure, and that indefinable but palpable sense of commitment that made last year's Royal Opera new *Otello* production so memorable. At such moments one learns anew why Mr Domingo is to be treasured as an artist, and not just as a tenor.

More Kagel/Almeida Theatre

David Murray

In the house of the Almeida Festival there are many mini-mansions, and in Monday's paper Max Loppert reported an early sense of surfeit with the first four works of the Mauricio Kagel sub-festival at the weekend. (Cologne has been the Argentinian joker's home for 30 years.)

I was luckier on Monday night with the Arditti Quartet's programme: just a pair of ten-minute quartets, one much longer one and *Pan*, Kagel's piccolo-quintet tribute to *Die Zauberflöte*. The latter is a cheerful, fractured study which takes off from Papageno's five pan-pipe notes – a bright six-minute encore piece for any concert including a Mozart flute quartet; the quartets are a different kind of joke.

Unlike most Dadaist pranksters, Kagel isn't in the least fed up with established art. On the contrary, he loves it to the point of self-strangulation, and malice is never detectable in his jests.

That helps explain his special appeal to the German musical community – that, and the fact that the jokes about some of his little jokes is that they go on for an unconscionably long time. But each of the quartets, I think, fills up its allotted time nicely, even (or especially) the new 40-minute Third; and of course the Arditti Quartet (with Nancy Ruffer's piccolo in *Pan*) gave them superlative performances.

Each piece brings some venerable aspect of the string quartet into surrealist relief by isolating it from the other features that normally make sense of it. The target of No.1 is the very fact that four different people are meant to play together *at all*: they come on singly, miming dismay and disgruntlement at finding the others, each making his own bizarre sounds by unorthodox techniques involving knitting-needles, coins, sellotape and gloves – an anti-ensemble.

By contrast, No.2 (they are a matched pair) prescribes the tightest, most constrictive ensemble throughout, but there is no musical interplay between the coincident parts.

No.3 is much more ambitious (and rather beautifully written). On the one hand, its surface boasts a whole parody-compendium of the routine devices of the medium, each ruthlessly defused.

Thrusting first-subjects wilt, development-passages forget where they were going, a springy scherzo-style staggers and slumps. On the other hand, the four movements – as four sequences of musical sound-events – are themselves real and pungently suggestive in a quite different, non-symphonic genre.

On that level lies what Kagel's own programme-note called the "poetic content," somewhat defensively; I thought no apology was needed.

Birmingham Jazz Festival

Birmingham's 10-day international jazz festival, sponsored by M & B and Birmingham City Council, runs from July 1 to 10 with a record number of performers and a strong international flavour. Headlining the list is veteran singer/bandleader Cab Calloway.

A Kansas City Special will feature Americans Harold Ashby, Nat Pierce and Preston Love, the Hotsmacks from Holland, the Barrelhouse Jazzband from Germany, the Sandvik Big Band and Max Lager's New Orleans Stompers from Sweden, and Yugoslav trumpeter Dusko Goykovich.

British attractions include Humphrey Lyttelton, George Melly, Digby Fairweather, Courtney Pine and The Midlands Youth Jazz Orchestra.

Arts Guide

June 24-30

EXHIBITIONS

LONDON

The Royal Academy. Cézanne – The Early Years 1859-72. An illuminating study of the formative period of one of the greatest artists of the 19th century and one of the seminal figures of the modern movement. Although he came to greatness in his middle and later years, Cézanne's early period, far from being inconsiderable as had been generally supposed, is now revealed in all its complexity and contradictory quality. Ends August 21.

The Royal Academy Summer Exhibition. The 220th Summer Exhibition in an unbroken sequence, and still the largest open exhibition of current painting, sculpture, prints and architecture in the world. With 1,261 exhibits, the show is as dense and bizarre as ever and contains many good things to be discovered. Daily until August 7.

Barbican Art Gallery. Art or Nature. A thorough survey of French photography in the 20th century, as part of the Images de France festival. The exhibition gives much attention to the great individual photographers of the period, such Kertesz, Cartier-Bresson, Brassai and Atget. Ends July 17.

The Hayward Gallery. (Two exhibitions). Angry Penguins is a fascinating study of a group of young painters active in Melbourne during and just after the Second World War. Sydney Nolan, Arthur Boyd, John Perceval and Albert Tucker are all shown in impressive depth. Also: paintings from the private Phillips Collection in Washington. Its scope extends from the 16th century to the present, from El Greco, through Goya and Ingres to Francis Bacon; the collection is still not closed. Its great strength is nevertheless in Impressionism and Post-Impressionism – Renoir and Cezanne, Braque and Picasso, Bonnard and Matisse. Both shows run until August 14.

British Museum. Ukiyoe – Images of Unknown Japan. This large exhibition of exquisite quality brings to us, through the work of the greatest masters of the wood-block print, the magical "Floating World" of pleasure and the senses that was the city of Edo (modern Tokyo) in the time of the Shoguns – from the 1600s until the 1860s, when Japan was closed to the outside world. Until August 14.

National Portrait Gallery. Paolozzi Portraits. A small but intriguing show of a body of recent work on a subject that has fascinated the Scottish sculptor, Eduardo Paolozzi, throughout his long international career. Of particular interest are the self-portraits, and also the several working studies of the architect, Richard Rogers. Until August 7.

NETHERLANDS

Amsterdam. Tropenmuseum. The arts and crafts of Indonesia, illustrated with more than 500 objects in bronze, bamboo, textiles and precious metals spanning 2000 years of cultural history. Ends August 21.

Amsterdam. Rijksmuseum (rear entrance). Divine Bronzes (some no more than 5cm high) illustrate the stylistic development of Indo-Javanese religious images from the 7th to the 16th centures and their role in transmitting culture from India and South-East Asia to Indonesia. Ends July 31.

PARIS

Galérie Schmit. French masters of the 19th and 20th century. The discreetly luxurious three storey gallery plays host, yet again, to an exhibition spanning a period rich with creativity and diversity. There is a darkly romantic portrait by Delacroix and an almost abstract Nicolas de Stael landscape. There is a rare Pissarro portrait of his son, Lucien, seated against a window. 396 Rue Saint-Honoré (42.60.36.36). Closed Sundays and lunchtimes. Ends July 16.

Pavillon Des Arts. The magnificence of silversmiths' work in India during the reign of the Moghuls testifies to their love of luxury. Everyday utensils like scissors, knives betel nut and cosmetics boxes are chiselled and adorned with filigree open-work. 101 Rue Rambuteau (42.33.82.50). Closed Mondays and holidays. Ends July 17.

Galérie Odermatt-Cazeau. Guillaumin's deep blue of the Mediterranean, framed by green pine trees and orange earth, entices the passer-by into an eclectic exhibition of some 60 works by the masters of the 19th and 20th century. A monumental 1937 wooden sculpture by Zadkin watches, totemlike, over a representation of a seated woman by Picasso. 85 bis Rue Faubourg Saint-Honoré (42.66.92.58). Ends July 30.

Daniel Malingue Gallery. Baltasar Lobo's work is a hymn to the eternal woman. The Spanish sculptor celebrates with equal mastery the gracefully slender body of a young girl and the full-blown beauty of a mother playing with her child. The purity of line of the smooth bronze comes near to abstraction at times, yet the sensuous femininity is always there. 26 Avenue Matignon (42.66.60.33). Ends July 9.

Grand Palais. Le Japonisme. 400 exhibits bear witness to the enthusiasm which swept the Western art world for all things Japanese in the second half of the 19th century. Monet decorated his house – even his doors – in Giverny with Japanese prints and built a Japanese bridge in its gardens. Van Gogh collected cheap Japanese woodcuts and represented them in his paintings. Closed Tue. (42.56.09.24). Ends August 15.

Chateau de Bagatelle. Count d'Artois' Folly, built in record time in the Bois de Boulogne in reply to a dare by Marie-Antoinette, his sister-in-law, has come to life in all its exquisite 18th century splendour. For two weeks lyre-shaped chairs face preciously worked cabinets, and an ensemble of Sèvres porcelain adds the gilded bronze lustre of its settings to the strong colours of a Savonnerie carpet. From 2pm till 6pm. Ends July 3.

UNITED STATES

New York, American Craft Museum. An ambitious show that traces the history of American architecture back to the turn of the century and emphasises the work of artists like Tiffany, Lawrie and Louise Nevelson who were commissioned to add art to the architecture. Ends Sept 4.

New York, Pierpont Morgan Library. Over 300 items from the life and art of Beatrix Potter show the evolution of the artist and her work. Included are the illustrated letter, discovered only months ago, to Noel Moore that became the basis of Peter Rabbit and the entire sequence of 22 watercolours from The Tailor of Gloucester. Ends Aug 21.

Chicago, Art Institute. Photographs by Josef Sudek. Using his native Prague as the background, this avant-garde photographer, who died in 1976, captured the lyrical quality of the Czech people and the country's beautiful landscapes. Ends Sept 5.

Washington, National Gallery. More than 60 masterworks, from a superb 16th-18th century collection of Munich's Alte Pinakothek, include paintings by Rubens, Rembrandt, Titian, El Greco and Van Dyck. Ends Sept 5.

Washington, National Gallery (East Wing). To mark the 350th anniversary of the first Swedish colony in North America, the exhibition covers four Swedish monarchies in the 16th and 17th centuries and shows Sweden as a resplendent and aggressive world power through objects and 100 paintings. Ends Sept 5.

ITALY

Venice, Palazzo Grassi. The Phoenicians. The fourth major exhibition at Fiat's imposing art centre on the Grand Canal attemps to give a complete picture of this extraordinary people, who dominated trade in the Mediterranean for over 1,000 years. Sarcophaghi project at odd angles from a pile of pink sand on the ground floor of the Palazzo; in an upstairs room, model ships stand immobile in a rippling artificial lake, and a huge polystyrene wave engulfs a Phoenician wreck. Not particularly legible graffiti run across the walls – comments on the Phoenicians by contemporaries and later writers. Many of the 1,200 objects (gold and silver jewellery, statues and reliefs in terracotta, bronze and ivory) are extraordinarily beautiful. Until Nov 6.

Venice, Fondazione Cini (Isola di S. Giorgio). Paolo Veronese. An intelligently presented exhibition to mark the fourth centenary of Veronese's death, two-thirds of which is devoted to preparatory studies for his major works in Venice. The last few rooms contain 22 paintings, including several masterpieces lent by US and European Museums. Until July 10.

Rome, Museo Del Folklore (Piazza S. Egidio). Goethe in Italy, organised by the Goethe Museum in Dusseldorf and the Arbeitskreis Selbstandiger Kultur-Institute in Bonn, includes a mixed collection of objects connected with Goethe's two visits to Italy (1786-1788 and 1790) – a pair of pistols, tables of exchange rates, folding writing-desk, and maps of the scanty post-chaise routes, and of the wildness of the terrain covered). On show is a copy of his friend Tischbein's portrait, Goethe in the Roman Countryside, and engravings, drawings and watercolours by Piranesi, Hackert, Kniep, Pinelli and Goethe. Ends July 3.

Rome, Palazzo Dei Conservatori. From Pisanello to the Birth of the Capitoline Museum, or classical art on the eve of the Renaissance. An exquisite exhibition of drawings, coins, illuminated manuscripts and sculptures Sixtus IV gave to Rome as the nucleus of the future Capitoline Museum. Ends July 24.

WEST GERMANY

Cologne, Romisch-Germanisches Museum. Caesar's Glass. This exhibition is the most important display of Roman glass ever staged. It covers the period from Caesar to Justinian, from the first century BC to the 6th century AD. The show is a joint project between the Corning Museum of glass, New York, the British Museum, London, and the Romisch-Germanisches Museum in Cologne. The exhibition is sponsored by Olivetti and runs until August 28.

TOKYO

Tokyo National Museum of Modern Art, Takabashi. René Magritte. Magritte's paintings of dapper little men in dark suits and bowler hats and floating like clouds should appeal to all Japanese "salarymen" who dream of escape from the daily grind. Closed Mondays. Ends July 10.

VIENNA

Rathaus. Wien 1938. Vienna's city hall is commemorating the Anschluss, the German annexation of Austria in 1938, with a large and courageous exhibition which shows how Austrians reacted to Hitler's march into Vienna and the eventual destruction of the Jewish culture. Ends June 30.

Messepalast. Imago Mexiko. A rich, exotic collection of Mexican art, photographs and graphics from 1900 to 1980. Ends July 31.

Saleroom/Antony Thorncroft

Monet's wife makes £14m

Sotheby's held a very satisfying sale of Impressionist paintings on Tuesday night, with a total of £39.8m and a mere 4.6 per cent unsold. The highlight was a pretty Monet painting of his wife Camille lying in a meadow surrounded by wild flowers. It sold for £14.3m, double its estimate, after a fierce tug of war between two telephone bidders. The price was an auction record for the artist, beating the previous best set by Christie's the night before by over £10m.

Another record was a Bonnard view of his wife Marthe in the bath. This was a favourite subject for him but the perspective, showing only her legs, is unusual. The Russian born German expressionist artist Jawlensky was another record maker at £539,000, as was Ben Nicholson. His 1947 "Composition" realised £286,000.

Strong Japanese bidding, along with more American interest and the traditional European collecting of impressionists ensured a most successful auction. There was still quite good demand yesterday when the second rank pictures came under the hammer. The morning total was £5,812,620 with a reasonable 11.23 per cent unsold. Among the auction records were the £147,300 paid by the Fuji gallery of Tokio for a Bernard Buffet, "Nature morte aux bouteilles," and the £97,400 for a rugby maul captured in 1917 by Andre Lhote.

Top prices at the sale were the £185,900 for "La table du thé dans le jardin" by Henri Le Sidaner and another record, £163,300 for a portrait by Léon Pourtau of his grandmother. Pourtau, a pointillist follower of Seurat, died at the age of 25 in a shipwreck. In the afternoon a chalk portrait of his son Jean by Renoir doubled its estimate at £173,000.

Christie's was selling Old master prints and gathered in £465,701 from the morning session with 11 per cent unsold. A set of fourteen plates from the first edition, second issue, of Piranesi's 1749 series of etchings, "Invenzioni Capric di Carceri" topped its estimate at £132,000, while twenty plates of Durer woodcuts on "The Life of the Virgin" were on target at £30,800. A volume, with sixty eight plates, of Piranesi's "Vedute di Roma" was also as expected, selling for £24,200.

Christie's South Kensington sold on Tuesday a bronze head of a leopard to the Brooklyn Museum in New York for £16,500, below estimate. It is extremely rare, being dated to Benin in west Africa before 1525. The catalogue argues forcefully for an early date, to the reign of the great expansionary king Esigye between 1505 and 1550, but the lowish price suggests that it did not convince all the potential buyers.

FINANCIAL TIMES

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A limited reform

ALMOST everyone agrees that Section 2 of the Official Secrets Act 1911 is indefensible, and even the Thatcher Government's desire to reform it is not new. The case against the Section is that it was put together in a hurry and scarcely debated by Parliament at a time when the country believed that it was under threat from Germany. As yesterday's White Paper says: "It penalises the disclosure of any information obtained by a person holding office under the Crown or a government contractor in the course of his duties, however trivial the information and irrespective of the harm likely to arise from its disclosure." It can also penalise anyone who receives such information.

The problem has long been not how to defend it, but how to devise something better to put in its place. Indeed, in a paradoxical way the best and perhaps only defence of Section 2 had become that it was so cumbersome it was seldom used. There has always been the possibility that reform would lead to greater restrictions on access to information, rather than less: greater because the new Section would be more specific and therefore easier to apply.

First chapter

That danger remains. Mr Douglas Hurd's White Paper is not, and does not pretend to be, anything like a draft for a Freedom of Information Act or even freedom of information with small letters. At best, it is a first chapter in a necessary process of reform.

Some of it is very good. And so it ought to be. Governments have been dealing with the subject since the Franks Committee recommended the replacement of Section 2 by a new statute in 1972. The last Labour Government produced a White Paper promising reform and the present Government tried to act on the basis of the recommendations that it had inherited in 1979. What is clear at least with hindsight, however, is that none of the attempts at reform had been properly thought out. They sought to replace the "catch-all" nature of the original Section with measures that were essentially arbitrary.

Mr Hurd's White Paper overcomes a lot of that. It seeks to define the kind of information that ought to be protected. It is mainly confined to defence and security matters, though anything that could assist criminality is rightly included. The White Paper also outlines the category of officers who must be most protective of information at their disposal: again they are primarily in the defence, security and military fields. All that is an advance.

Definitions

There is a potential practical gain as well. The authors of the White Paper seem to have looked carefully at the nature of any infringements and prosecutions that may still occur. Minor infringements on non-security matters will not go to court at all. They will be dealt with by the Civil Service Discipline Code, much as they would be in a company operating in the private sector. The White Paper demolishes the public interest defence. Again that is reasonable on the grounds that it is virtually impossible for different groups of people to agree on the definition of the public interest. Protected information should be defined as such in advance, which is what the White Paper proposes.

Above all, the White Paper places the onus of proof in any prosecution firmly on the Government and the prosecution will have to make its case in such a way as to convince a jury. That does not suggest that prosecutions will be lightly brought if the White Paper becomes the basis of a new law.

There is one section that could directly affect the media. Paragraph 54 would make it an offence for anyone to disclose information in the specified categories if it is likely to cause harm. Again, however, the prosecution would have to show that harm was likely to be caused and that the discloser might reasonably have known so in advance. That is a challenge that the media can accept.

The White Paper is thus a tidying up exercise with a slightly liberal bent. Greater scrutiny of the work of the security service and less secrecy in government generally must be the next steps.

Joe Rogaly examines the Government's proposed reform of Section 2 of the Official Secrets Act

A stronger guard on fewer secrets

MR DOUGLAS Hurd was mightily pleased with himself yesterday. Britain's Home Secretary – for present purposes the equivalent of a head of the justice department in most other countries – produced a proposed reform of the law of secrecy that took everyone by surprise. To the general amazement, it did not seem at first sight to be as restrictive as had been expected. (There is, of course, a great big catch, but we'll come to that in a moment.)

The expectation had been that Mr Hurd would indicate that the definition of what should be kept secret would be excessively wide. One glance at the White Paper that he presented to Parliament with such evident satisfaction proved the contrary. For his proposed new Section 2 of the Official Secrets Act will contain a narrower definition of secrecy than many people anticipated, and a far narrower one than is contained in the existing 1911 Act.

This is not very difficult. The present law classifies all Government information – the lot – as an official secret. Mr Hurd's amendment would limit the cover of Section 2 to matters of security and intelligence, defence, international relations, information useful to criminals or terrorists, wiretap information, and information obtained in confidence from other governments or international organisations.

The Home Secretary wants everyone to know that this is a major liberalisation of most Whitehall practice. It is at present technically a criminal offence for any civil servant to show anyone, say, the luncheon menu of his minister. Come the amendment, and there will be no sanction against such an act in the *criminal* courts. Internal civil service disciplinary procedures will be maintained, and doubtless strengthened, but most departments would be released from the threat of a criminal prosecution. A leak of the Budget would not, for example, be a breach of the amended Act. It is said that some of the senior permanent secretaries are harrumphing about this, but to my suspicious mind such talk could be part of the official hype that is accompanying the White Paper.

Another widespread belief, which the Home Office did nothing to discourage over the past few weeks, was that the White Paper would propose that secrets are what Ministers say they are. Potential opponents were ready to express outrage at this definition of government ministers as prosecutors, judge and juries in their own cause. In the event the concept of ministerial directives setting out what is and is not in the public interest to disclose is rejected in the White Paper.

With the benefit of hindsight, this is hardly surprising. It was the idea of a ministerial certificate that led to the scuppering of a secrets bill put forward in 1979 by Mrs Margaret Thatcher's then freshly-new Government. The notion would get short shrift even today. So the Government has wisely walked away from it. Mr Hurd has instead adopted a totally different principle, namely that an offence has been committed when a particular breach of secrecy is likely to cause harm to the interests of the nation or any of its individual citizens.

To complete the picture of reasonableness, the final decisions will be made by a jury. This is a great deal better than a Minister. Yet much will depend upon the various definitions of harm in the draft bill that will probably appear in the autumn. In the case of the Ministry of Defence, for example, the White Paper says that the prosecution will have to prove "that the disclosure was likely either to prejudice the capability of the armed forces to carry out any of their defence tasks, or to lead to a risk of loss of life, injury to personnel or damage to equipment or installations, or to prejudice dealings between the Government and the government of another state . . . " But when it comes to information obtained in confidence from other governments, *any* unauthorised disclosure is defined as harmful.

The legal defence that the disclosure of a particular secret is in the public interest is specifically ruled out, partly on the unconvincing argument that it would muddy the waters. This is in line with some of the doleful expectations that preceded yesterday's White Paper. The popular idea of a defence that something that had already been published elsewhere was in the public domain anyway is handled more subtly. There is to be no specific provision in favour of such a defence, but it could be used as part of an argument that disclosure was unlikely to cause any further harm. It would be relevant, but not conclusive. It could not be used at all in cases where harm is ruled out as a defence, as when, for example, a spy publishes stories about his work.

It is here that we get to that great big catch. The Government's principal motive for reforming the Official Secrets Act is that its Section 2 has long been discredited. It has become increasingly difficult – some say impossible – to get a conviction. For secrets that the Government regards as especially important, therefore, it is felt necessary to have a law that works. Seen from this perspective, Mr Hurd's "liberalisation" really amounts to no more than cutting away the ambit of a dead-letter law from departments whose secrets present no real threat to security.

The expectation is that we will all be so dazzled by that great and billowing "liberal" cloak, that we will fail to see that it hides a reincarnation of a slimmer and more powerful Section 2. We may not appreciate that civil servants working in the areas that come within its clauses will now really be subject to its penalties.

Mr Hurd would regard this observation as perverse. It might be in a country in which there were many checks and balances within the constitution, but Britain is ruled by what Lord Hailsham has immortally dubbed an "elective dictatorship". There is no proper check on the actions of the executive. Any serious analysis of the present state of the constitution must start with the proposition that, provided she does not go over the top, Parliament is Mrs Thatcher's poodle. The dangers inherent in this situation are infinitely worse at a time when the opposition parties are in disarray and one party, under one leader, seems destined to go on and on and on.

It is for this reason that the provisions of the White Paper relating to the security services should not be accepted in their present form. They make anything said to any outsider, at any time, by any member or former member of the secret services, or those who work closely with them, automatically criminal, unless prior authorisation has been obtained. This applies even if what is said is not true, but merely purports to be a disclosure from or about our spies. There is no defence of likely harm here. The same blanket proscription applies to wiretap information, or tales of how it is obtained.

It might have been expected. The Prime Minister has been obsessed with secrecy, and its importance in the constant battle against terrorists, throughout her public life. Her feelings are understandable. Her close associate, Airey Neave, was killed by an IRA bomb in the House of Commons car park at the beginning of her first election campaign in 1979. Another IRA bomb shattered the Grand Hotel, Brighton, during the Conservative Party conference in autumn 1984, killing, among others, the wife of the Chief Whip, John Wakeham. Mrs Thatcher herself escaped with her life because she was working late in a room away from the target area. These horrifying experiences apart, it is of the essence of the Prime Minister's character that once she has made up her mind about an important principle she will countenance no arguments based on what might be an equally important counter-principle.

The upshot is that Britain's security services will operate under greater conditions of secrecy than those of the United States, West Germany, France and many other democracies. Never mind whether or not newspapers can write about them. The point is that in an elective dictatorship it is vital for Parliament to hold this intensely important part of the Government process to account, at least at some level. Under the White Paper's proposals there is no chance of so doing, not in a select committee, not by report to the House by the services' internal ombudsman, not through a special committee of the Privy Council. No way. This gaping hole in Mr Hurd's proposals is not of the security services' making; the impetus has come from Downing Street. I suspect that the spies are rather embarrassed; Mr Hurd, if he is not, should be.

The absurdities and anomalies of Section 2

FEW provisions, if any, of the criminal law can have so consistently failed to gain any kind of public acceptability over the past 75 years as Section 2 of the Official Secrets Act 1911.

Juries tended to exhibit their distaste for a law that operated so quirkishly in its application, by acquitting where they might ordinarily have convicted.

It has been suggested that Section 1 of the Act, which deals with certain espionage activities, but deals also with the protection of official information "for any purpose prejudicial to the safety or the interests of the state" is fully adequate, and that any liberal democracy can dispense with the additional powers of a reformed Section 2.

Predictably, the Government's White Paper rejects as a misconception the simple repeal of Section 2. It points out that it deals with other disclosures harmful to the public interest, such as those which "would undermine national security, help terrorists, impair the ability of the armed forces to defend the country or damage relations with other states . . . "

Since Mr Justice McCowan in the Ponting secrets case held that the interests of the state are equivalent to the interests of Government it would have been possible to adapt Section 1 to meet all the situations for which the Government thinks it necessary to provide for protection from disclosure.

However, given the basis of the concept for the new legislation, namely harm to the public interest, the tighter drawing of the lines of official information that cannot be disclosed will make the new legislation enforceable without the difficulties that have beset prosecutions in the recent past.

The government clearly attaches great importance to its proposal that it will be for the courts (and that means juries) to should decide whether there has been harm to the public interest by an unauthorised disclosure.

What is not clear is whether the detection of an offence under the new law will automatically attract a criminal prosecution, or whether the new offence will be regularly used simply to frighten civil servants with the threat of disciplinary action.

At present, no prosecution may be brought under Section 2 except by or with the consent of the Attorney General. The government proposal is that consent will only be required "in respect of information relating to security, intelligence, defence, international relations, or interception or information provided by other governments or international organisations on conditions requiring it to be held in confidence." Presumably, other prosecutions will not require the A-G's consent.

Justinian

A new world in the making

EUROPE and the United States, have long believed that Western civilisation lies at the centre of the world. It is easy to forget that this was not always the case. For much of the past two millennia the most prosperous region in the world, the source of many of its major inventions and the area with the most advanced culture, was China and East Asia. Over the last 30 years, the east Asian seaboard has been recovering some of its former strength.

The movement began with the emergence of Japan in the 19th century and, still more, with its resurgence as a major economic power after its crushing defeat in the Second World War. It has been gathering momentum as other economies in the Asian Pacific Rim – Korea, Taiwan, Hong Kong, Singapore and increasingly Thailand, Southern China and Malaysia – have learned from Japan's success that, in a liberal trading environment, the highest rates of economic growth lie with those who manufacture competitively. Short of unpredictable upheavals, the shift in economic power from the Atlantic to the Pacific, in general, and East Asia, in particular, seems likely to continue well into the next century.

FT report

The 12-page report that the *Financial Times publishes today* – Asia's Pacific Rim, a new world in the making – looks at some of the reasons behind this success. Publication of the report coincides with a period of economic and political change in East Asia. Its principal focus is the second generation of fast-growing economies, whose rising share of world trade in manufactured goods is earning them the status of industrialised nations. But, as trade and investment within the region grows, it becomes increasingly difficult to disentangle these economies from their larger neighbours, China and Japan.

Many in the West have been under the illusion that East Asia's success is a "miracle", as though it sprang from supernatural causes. Almost equally widespread is the belief that the success, if not miraculous, is unfair, the fruit of a strange culture with which Western society cannot be expected to cope. In fact, there is no "miracle" and nothing particularly unfair either. As the report shows, governments applied the right economic policies; they encouraged education; they were not timid about importing technology; their people worked hard. It is open to other countries to follow suit.

For the West, East Asia's growing success poses a challenge, just as Europe's expansion in the 16th and 17th centuries posed a challenge to China. But the challenge comes from a graft of the Western idea of a competitive market economy upon the ancient cultures of East Asia. It is the sincere flattery, not of imitation, but of adaptation.

Western response

The West must not make the mistake that China did, of closing its doors to Western trade and thus weakening itself from within. Europe, in particular, needs to imbibe more of East Asia's new energy and creativity. Not to produce in the world's most dynamic region is for business to condemn itself to being second rate, a point not lost on Philips, to take one example. The report shows how the European electronics group is drawing renewed strength from its Far East connection.

There has been much moaning in the West about current *account surpluses and dumping* of exports. While protectionist action against dumping may sometimes be justified, it would be wrong to believe that the success of these countries is due to such practices. It would be equally wrong for the West to imagine that its problems can be resolved by any general increase in protection. More fundamentally, the middle class that has emerged as a result of economic success is demanding greater freedom, both political and economic. More open, consumption-oriented societies will surely be the result, ones with which the West will find it easier to live.

For the West, the emergence of successful, increasingly democratic, market economies in East Asia is not merely its greatest challenge, but one of its greatest triumphs. Along with determination to meet the challenge of these remarkable offspring of Western ideas and Eastern culture, a little quiet pride would not be out of place.

OBSERVER

The Spanish outsider

■ Miguel Boyer is one of the exceptions on the new committee looking into European monetary union, in that he is not (although he might well like to be) a central bank governor. But he is used to being odd man out.

When he became Spain's finance minister in the first González cabinet in 1982 he was, by comparison, quite an oldie - already almost 44. The fact that he had been in the Socialist Party longer than any of his colleagues failed to secure rank and file affections.

Dry, shy, and with a touch of the foreigner to him – he was born in France during the Civil War, and attended Madrid's French lycée – his strict monetarist approach and known pro-Nato views did as much to make him unpopular with the left as they did to anchor the administration's reputation as conservative Europe's best-liked Socialist government.

Boyer's earlier career as an economist took him in and out of a string of jobs at the Bank of Spain and both state and private industry, and he did not last much longer as a minister. After two and a half years as economic strongman, he was one of the first of the team to drop out, leaving unexpectedly, partly because of Cabinet clashes, partly because of the growing exposure of his private life. He moved to the chairmanship of the state-controlled Banco Exterior.

Felipe González once said of Boyer that the reason he never smiled was that he was vain about his teeth. But he has been smiling more since he joined the Marbella jet-set, where his presence never ceases to exasperate members of the Socialist left and some of his former Cabinet colleagues. His second marriage, to the Philippines-born Isabel Preysler, former wife of singer Julio Iglesias and of the Marquis of Griñón, has made him a regular feature of Spain's society pages.

Basle's insider

■ By contrast, Alexandre Lamfalussy, the 59-year-old general manager of the Basle-based Bank for International Settlements, should be thoroughly at home in the group.

He is a Hungarian-born Belgian citizen who speaks impeccable English, French and German. As general manager at the "Central Bankers' Bank" and an economic adviser before that, he has long been an enthusiastic supporter of greater economic policy co-operation.

Although he talks and writes diplomatically, he has been a constant critic of insufficient collaborative efforts above all by the Reagan administration. He has also taken West Germany to task over less than expansionary policies.

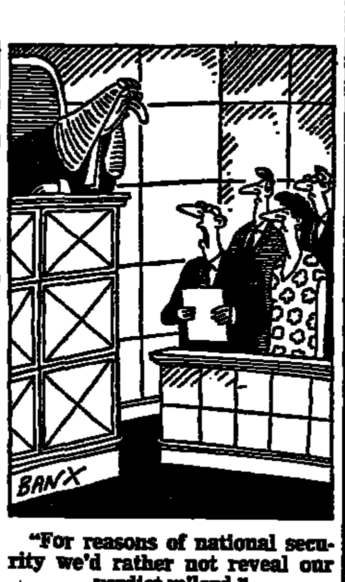
Margaret Thatcher felt a Lamfalussy barb in the early 1980s when he wrote in the annual BIS report that her policies were akin to an experiment in the natural sciences.

He has no prejudged position on the wisdom of moving to European monetary union. He sees the limits as well as the opportunities of co-operation during the monthly BIS meetings. His presence should help to ensure that the report is readable.

The Smiths at GM

■ There is a proliferation of Smiths at the top of General Motors. Roger Smith is the chairman. In this week's boardroom changes Alan Smith becomes executive vice-president in charge of operating and public affairs staffs and John Smith becomes executive vice-president in charge of all foreign operations.

They are not related and a spokesman said that their names cause no confusion. You just refer to them as John Smith and Alan Smith. Everybody knows who the chairman is.



"For reasons of national security we'd rather not reveal our verdict,m'lord."

Glaxo's loss

■ John Burke, until recently the chairman of the UK operations of Glaxo, the biggest British pharmaceutical company, says that he thought long and hard before giving up his job to join a relative tiddler in the drugs world.

Burke, aged 45 and one of Britain's highest flying pharmaceutical industry executives, has taken on the job of chief operating officer at Porton International, a five-year-old biotechnology company, whose annual sales of £13m are less than one per cent than those of Glaxo.

The new man at Porton reckoned that prospects at the company, which he says has a string of potentially lucrative products in its development pipeline for the 1990s, were sufficiently exciting to lure him from his post at the established concern.

Burke has worked in senior positions for three other major drugs concerns, Merck and G D Searle of the US and Britain's Beecham. At Glaxo he was a possible contender in due course for one of its top jobs, either chief executive or chairman.

Diplomatic chess

■ Soviet and Hungarian diplomats have agreed to join a "celebrity" line up who will pit their skills at the weekend against Britain's brightest young chess prospect, 14-year-old Matthew Sadler from Rochester in Kent.

The Chess Federation has arranged the match at the Ibis Hotel, London, to celebrate National Chess day as part of Sport Aid 1988.

Five eastern block embassies were approached to field players. The Polish ambassador, Dr Zbigniew Gertych, had the best excuse: he was going on holiday. The Bulgarian candidate was indisposed and Rumania and Czechoslovakia have not yet replied.

The Soviets have not yet finalised their one man team, but he is likely to be cultural attaché Gennadiy Fedosov. The Hungarians have come up with Gabor Horvath. Both are said to be good players, but so is their opponent.

Sadler, whose 17-year-old brother Jerome was runner-up in this year's BBC young musician of the year competition, is recognised as the best 14-year-old player in the world and some are comparing him to the young Bobby Fisher.

Others in the celebrity team, like footballer Ossie Ardiles and astronomer Patrick Moore, have been chosen because at some time they have expressed an interest in chess, or in the case of the film actress, Greta Scacchi, because her name is thought to be a derivative of the Italian word for chess, scaccistica.

Small talk

■ When Bertrand Russell was very young he was left to entertain Gladstone after dinner while the ladies retired. Gladstone spoke only once. "This is very good port they have given me," he said. "But why have they given it to me in a claret glass?"

ECONOMIC VIEWPOINT

Fiscal policy is not yet dead

By Samuel Brittan

THE LOWBROW reaction to a current account deficit is to announce "Britain in the Red", as if Britain were a company which had made a loss. This is, of course, absurd, as a nation's trade is not a profit-and-loss account.

An equally valid headline would be "Record overseas investment in Britain". For the current deficit is identical to the capital inflow. This inflow is not just double-entry book-keeping, as it would be if the Government had borrowed overseas or if central banks had supported sterling. On the contrary, it represents, to date, voluntary investment decisions by the private capital market.

The highbrow reaction to the current deficit is that it only matters if it is a sign of suppressed inflationary pressure, and if that pressure does not stay suppressed. The problem is that the trade figures do not arrive readily labelled with causes and probable consequences. Nor is the distinction between a deficit which finances consumption and one which finances investment all that helpful. The present deficit has helped to finance both, as always happens in a boom.

Nor is the explanation that UK growth is faster than that of most other major countries convincing either as a criticism or an excuse. There is no law which states that all countries have to grow at the same rate. Japan is growing faster than the UK, but – to the embarrassment of international statesmen – remains in current surplus.

> Operationally, the only way that a current deficit could be inflationary would be if it triggered a run on the pound

Within the US, different states grow at very different rates; which makes nonsense of the latest argument that the UK would be infected with the lower German growth rate, if it were linked to the D-Mark under the EMS.

Operationally, the only way that a current deficit could be inflationary would be if it triggered a run on the pound, which was then allowed to depreciate. The policy response should be to put a firm floor under sterling and to raise interest rates by whatever it takes to prevent depreciation beyond it.

This will restrain domestic spending and ensure that the current deficit is held at whatever the capital markets are willing to finance – without anyone even needing to look at the trade figures or guess how accurate the official balance of payments figures really are.

The task of persuading the market that the British Government is serious about sterling has been made more difficult by the Prime Minister's insistence on uncapping the pound before the Budget. There was a case – especially in view of the D-Mark's slippage – for a fully explained rise in the sterling-DM range, but none whatever for just abandoning the DM3 ceiling with no explanation apart from a Cabinet row. It is not possible to undermine confidence in an upper limit for sterling without simultaneously undermining confidence in a lower one.

Another popular view is that the current payments deficit (which has been at its present rate since well before the Budget) was due to the Chancellor's profligacy in the Budget. "No tax cuts, we're British" is still the slogan.

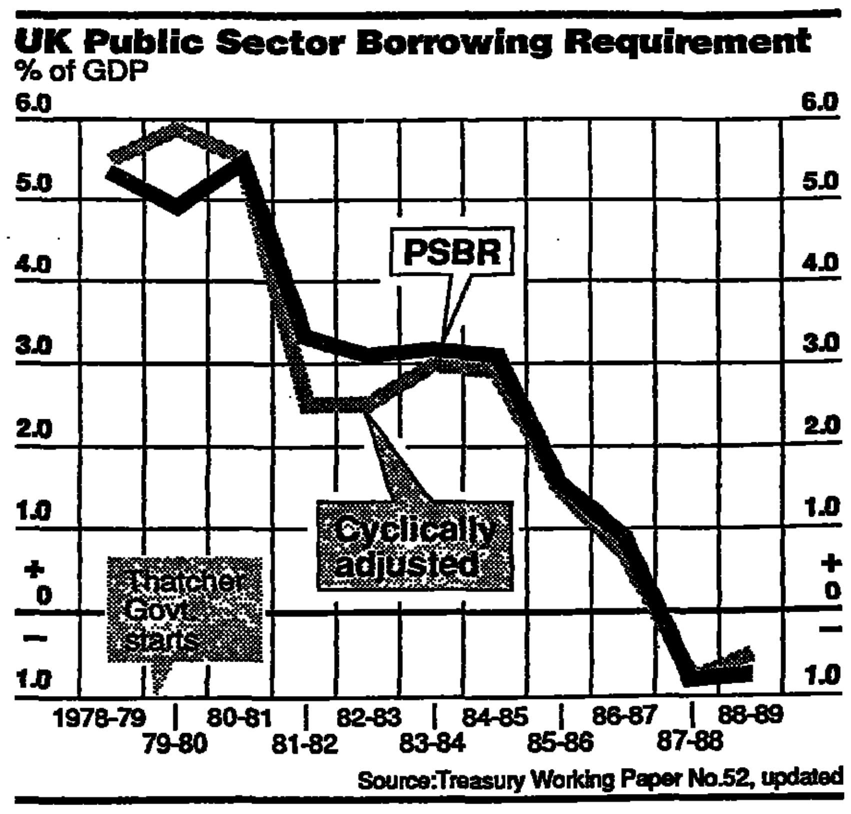
Of course, the Treasury underestimated the growth of demand (which was the source of its sterling policy dilemma). But City writers often make the statist assumption that all incomes belong to the Government. They forget, if they ever knew, that, under a tax system not indexed for real income growth, the tax burden will grow unless there are adjustments in tax rates.

There were no real Budget tax cuts, except for the higher rate tax-payers. For the rest there was just an adjustment of rates to prevent fiscal drag increasing the tax-take. Even if higher rate taxpayers are included, the Budget did not reduce taxation as a proportion of GDP.

But it is best to look at the public finances as a whole. The Public Sector Borrowing Requirement (PSBR) has fallen from over 5 per cent of GDP at the beginning of the decade to nearly 3 per cent in the mid-1980s, to 0.9 per cent in 1986-87, and an estimated repayment of 0.8 per cent in both 1987-88 and 1988-89. Only about one percentage point of the improvement reflects privatisation.

Indeed, the public sector finances are already proving far better than forecast in this financial year. The odds are that the repayment will be nearer £6bn than the estimated £3bn. This will be well over 1 per cent of GDP and higher than the repayment achieved by Mr Roy Jenkins in the one isolated year of 1969-70. Moreover, the public sector will probably be in surplus even if privatisation receipts are excluded.

What happens to public sector borrowing or repayment if it is adjusted for the business cycle? Such adjustments were used for years to accuse the Thatcher Government not of too loose, but of far too tight, a fiscal policy – which is perhaps why we hear less of them nowadays.



Source:Treasury Working Paper No.52, updated

A Treasury economist, Hugh Bredenkamp, has re-examined the whole issue of cyclical adjustment, (The Cyclically-Adjusted Deficit as a Measure of Fiscal Stance, Working Paper No. 52, HM Treasury, Parliament Street, London, SW1P 3AG).

He suggests that many widely cited measures of the adjusted PSBR are based on far too optimistic ideas of potential output or employment. Such an approach can lead to an estimated "output gap" of 12 per cent in the recession of the early 1980s, and one of 8 per cent as late as 1986. The effect of such output gaps is to make fiscal policy look ferociously severe, with, for instance, a large cyclically adjusted repayment achieved as early as the 1981-82 recession.

Bredenkamp argues that these large adjustments "assume levels of output probably not attainable in the medium term without excessive pressure on inflation (if at all)". He has a much less ambitious, but still useful, method of adjustment. His "output gap" is related (by means of a five-year centred moving average) to output levels actually achieved over the past cycle.

The cyclically adjusted PSBR figures in the Treasury Paper are not very different from the actual ones – which the Treasury will claim as evidence of the steadiness of growth since 1981. On the official forecast of 3 per cent real growth in 1988-89 (or 3½ per cent excluding the North Sea), output this year will be half a percentage point above trend; and the cyclically adjusted Repayment will have fallen by 0.3 percentage points, compared with 1987-88, representing a very trivial loosening in a very tight fiscal policy.

A cyclically-adjusted zero PSBR is a benchmark, not an Iron Rule. The fine tuning demand managers of yesteryear might have liked to ignore the benchmark altogether; but even the less ambitious policymakers of today should be able to contemplate occasional departure in either direction – for instance, if there is need to supplement monetary policy in a specially difficult recession or phase of incipient inflation.

At present there is little difficulty in fighting inflation by dearer money – for the very reason that international confidence in the UK is a little weaker and interest rates can be raised without sterling overshooting. But once confidence is restored in the Government's anti-inflationary resolve we could easily be back with the early spring conflict between external and internal requirements.

The long-term resolution is still a convincing tie-up with the D-Mark via the EMS. But it is also possible to reinforce monetary policy by a temporary tightening of fiscal policy, without overturning any of the aims of the last Budget.

I refer to the fiscal regulator power which was introduced by Chancellor Selwyn Lloyd in 1961. In its present form it allows the Chancellor to raise or lower VAT by up to a quarter of present rates (ie, up to 3¾ per cent) and Excise duties by up to a tenth. The Regulator can be introduced without a Finance Bill or any crisis package.

If used to the maximum, it would yield in a full year over £1.6bn from Excise duties, and nearly £5bn on VAT. The full Excise duty increase would add 0.75 per cent to the Retail Price Index. Each 1 percentage point rise in VAT adds 0.5 per cent. (For comparison a 1 percentage point increase in mortgage rates adds 0.4 per cent to the RPI.)

The Regulator was last used by Chancellor Denis Healey on two occasions in both upward and downward directions. But Ministers would be quite wrong to dismiss it as a relic of fiscal fine-tuning. The true criticism of fine-tuning was the lack of a nominal framework and over-ambitious objectives, both of which could lead to destabilisation. There is nothing wrong in acting in time rather than waiting a year.

The revenues raised by the Regulator are clearly connected with economic management and will be less likely to tempt spending Ministers than a normal Budget surplus. The Chancellor would be able to reverse the Regulator in a recession; or, alternatively, he could consolidate it as part of a shift to indirect taxes. The possibility that the tax increases might be temporary would reinforce their effects, as consumers would postpone purchases.

Like credit controls and similar measures, the Regulator should be used rarely and briefly. The time to use it would be either if the inflationary danger were so great that monetary measures needed to be supplemented, or if the conflict between exchange rate stability and the needs of domestic monetary policy were to reappear. The UK Government is not so rich in policy instruments that it can cast a very useful one aside on grounds of rather dubious doctrine.

THURSDAY BOOK REVIEW

The Inquiring Eye

The writings of David Watt

Edited by Ferdinand Mount

Penguin; £9.95

DAVID WATT did not produce a book of his own, but he will long be remembered for his ephemera. This is an extraordinary achievement, particularly when it is considered that, for the main part, those ephemera consisted of articles in this newspaper and The Times – to which must be added his illuminating conversations with a host of friends. All of us in the ephemera business, and many beyond, admired his work.

He and I occupied adjoining offices, and shared a secretary, during most of the years in which he wrote the Friday column, "Politics Today". It was all in his head, and came out slowly at first. She who took the dictation, straight to the typewriter, had to wait through long pauses and much pacing. But he never had to look over her shoulder to see what had been written before – not even, one of the typists once said, when the work of writing was interrupted by lunch. The concentration was sometimes long drawn-out and always intense but, in the end, the composition came out word perfect. The remarkable work that resulted from this extraordinary process can be seen in this posthumous collection.

Take, for a start, the concluding sentences of his last column in the Financial Times. "The distribution of power and wealth and amenity is too complex and too sensitive to be encompassed either by paternalism or by a return to *laissez-faire*," he wrote. "The only alternatives are education, persuasion, debate, trust."

That was November 1977. A bare decade later both the thought and the language stand as monuments to a political culture that is now sadly diminished. Propaganda, stridency, derision, suspicion are too often in the ascendancy. Yet it should not be thought that David Watt was excessively kind to the few politicians he really admired. He never allowed his sympathies to dim his critical faculties. Writing in September 1983 of the then new leader of the Social Democratic party he observes that "it is still not clear from Dr Owen's disquisition what *interest* the SDP is appealing to apart from 'all sensible, serious, enlightened people within earshot' – a category apt to be smaller than expected when it is actually required to put its hands deeper into its pockets on behalf of the poor."

Readers of these enlightening passages may rest assured that they can rely on the quality of the information as well as the soundness of the analyses. For David Watt had excellent contacts, always close to, or at, the top. When I took over the Washington office from him, a zillion years ago, the International Monetary Fund expressed the hope that that meant the end of the practice whereby detailed accounts of its private meetings appeared in the next day's FT – before the internal minutes were written, let alone circulated.

It is not possible, in a short note, to do justice to all the topics covered in this collection. They represent the shrewd observations of a passionate European, an understanding Atlanticist, an expert on Anglo-American relations (at the time of his death he was well on the way with a book on American foreign policy since the war), a commentator whose "inquiring eye" shone out from the very centre of post-1945 Western thought. Of the many pithy summations of what he saw, I offer just one, written on reflection after the excellent showing by the classless soldiers who recaptured the Falklands: "Port Stanley was won on the playgrounds of Neasden Comprehensive."

And, as a last example, take his report that "the Civil Service public relations machine has been brought more nearly under direct Prime Ministerial control than it has ever been before" – this by a Prime Minister who ruled through Cabinet committees and ad hoc ministerial task forces. The other ministers were somewhat annoyed. The PM exercised an overwhelming personal dominance over the rest of the Cabinet. Only people who were more or less of the Prime Minister's way of thinking were entrusted to carry out the detailed programme.

The piece was not about Mrs Margaret Thatcher. It was published on this page on May 5, 1972. It was about Mr Edward Heath. Historians will have no better-expressed evidence for the thesis that his premiership was a failed dress rehearsal for the real performance that began seven years later.

This is ephemera that lasts.

Joe Rogaly

Letters to the Editor

Alienation may rule the waves

From Mr Iain Griffiths.

Sir, Joe Rogaly's analogy (June 24) of the "surfing" Kenneth Baker is remarkably apt. Unfortunately, however well motivated the Secretary of State for Education might be, the waves he is creating could very well leave him beached, high and dry.

As a headteacher of an inner London school, I would like to refute some of the "educational myths" on which our minister is "surfing." Inner city schools are not "second rate," and the teachers are certainly not "third rate." Third rate teachers without a high standard of professional expertise and control would not survive very long. Our parents are considered a valuable resource in terms of support and encouragement and take a very active role. They would never allow us to get away with "dotty pedagogy."

In all organisations there is room for improvement; heads and teachers have made great efforts in the last few years to tackle some of the inadequacies in the service offered. Most educationalists recognise the need for a constant appraisal of what goes on in school. The need for some kind of national curriculum has long been the desire of teachers – but one that is the product of a period of reasoned consultation with all the groups involved.

Mr Baker's problem is that he has succeeded in alienating the very people on whom he will have to rely to deliver his programme of change. He is in danger of being swept away by two waves: the discontent of parents and teachers over the inevitable decline in the quality of the service; and the demands of the "militant" wing of his party and its unrealistic notions of what state education should be.

Iain Griffiths,
Caldecot Primary School,
Caldecot Road, SE5

Japanese experience on the line

From Mr David Sawers.

Sir, A new myth seems to be arising about Japan: that the division of Japanese National Railways (JNR) into seven has eliminated the massive losses it made (Letters, June 21). The facts are rather different.

Three of the seven companies made large operating losses in the year to March 1988. Japanese government subsidies helped to change these operating losses into small net profits.

The improvements in the financial results of the Japanese railway system since it was divided into seven have mainly resulted from writing off much of JNR's debt; from closing unprofitable lines; from hiving off the Shinkansen (bullet train) lines into a separate company so that the operating companies do not have to meet the cost of the infrastructure, and from transferring 70,000 surplus workers into yet another company.

Private railway companies, which operate many of Japan's suburban services, receive tax relief on investment to improve their systems.

The Japanese experience does not seem very relevant to British Railways. BR does not have a large burden of debt to write off; it has already shed much of its surplus labour; and the large-scale closure of unprofitable lines seems to have been judged politically dangerous.

Improvements in the financial performance of Japanese railways seem more the result of financial *legerdemain* than of improved efficiency. Whether the division of the system is improving efficiency seems yet to be established.

David Sawers,
10 Seaview Avenue,
Angmering-on-Sea,
Littlehampton, West Sussex

The miracle may happen elsewhere

From Mr Mark Butler.

Sir, Martin Wolf ("Is there a British miracle?" June 16) is quite correct to raise doubts about the basis (and existence?) of an economic boom in Britain.

There are two ways to raise productivity. The first (and most desirable, because it can be repeated) is to use more efficient and advanced technology. The second is to increase the intensity and duration of labour.

It is obvious from an economic viewpoint that what John Muellbauer terms "improvements in industrial relations" and "the shedding of below average productivity labour" has very definite limits. Yet it is this course that is largely responsible for Britain's increase in productivity.

The measures taken in this country since the early 1980s (the shake-out of inefficient capital, "improvements in industrial relations" and so on) are largely exhausted. Yet West Germany's journey down the same road has barely begun.

To imagine that the Germans will not take this course of action, and that their economy will obligingly stand by while Britain catches up, is absurd.

Mark Butler,
Finsbury Square, N1

No support for the Unita movement

From Mr J.K. Shinkaiye.

Sir, You indicated in your report (June 20) that Jonas Savimbi, the leader of the rebel movement Unita, which has been fighting the legitimate government of Angola since that country's independence in 1975, will be visiting Nigeria among 20 African countries during his present visit to a number of countries.

We wish to make it quite clear and categorical that it is not intended and has never been intended by the government of Nigeria to play host to the leader of a rebel group which exists only with the support of the apartheid government of South Africa and the government of the United States of America, and which has been causing undue hardship for the people of independent Angola. It was wrong to have made that suggestion and amoral to have claimed that Nigeria gives "various degrees of support to Unita."

The High Commission wishes to state again that the government of Nigeria recognises the legitimate government in Luanda and gives no support whatsoever to the Unita movement.

J.K. Shinkaiye,
Minister Counsellor, Nigeria High Commission,
9 Northumberland Avenue, WC2

UK could do as it was done by

From Mr R.G. Tindall.

Sir, If the Kuwait share-holding in BP causes problems, could we not do as we were done by in the 1970s – empower the Government by legislation to be able to authorise BP to buy its shares owned by a foreign government, should that be deemed necessary?

R.G. Tindall,
73 The Ridgeway,
Hertford

Ticket touting serves a double fault

From Mr Michael Barrett.

Sir, The point that Barry Riley seems to have overlooked in his logically argued but, if I may say, rather amoral Long View column (Weekend FT, June 25) is that at the Wimbledon tennis championships you do not find a true market in operation (as, say, at the stock exchange).

As he admits, the tickets are non-transferable and valid for only a single day. This means that ticket touts are trading goods with a very short consumer life which, in turn, encourages unscrupulous practice in the effective handing-on of their hot potatoes.

Second – and more important – the so-called secondary markets which keep touts in business are created not by the general public but by corporations. The companies which take marquees for the duration of the championships are given only a small number of tickets for each day as part of their entertainment package. Inevitably, these do not meet their requirements. Their guests who, Mr Riley maintains, are "back in the marquee eating strawberries and quaffing champagne," are not necessarily doing so out of a lack of interest in the tennis (though occasionally this might be the case), but because of the scarcity of seats. Hence the "apparent" need for touts.

The Wimbledon authorities – be it noted – are not "conniving at the development of two distinct secondary markets" in any pejorative sense. Debenture holders pay a reasonable market price (approximately £200 per seat at present) for the right to have reserved tickets, their own car park and lavish facilities, and are fully entitled to sell on those tickets if they wish.

"Umpires and officials" (who are paid, for Mr Riley's information, in the form of a daily allowance and meal tickets) are given the right to purchase tickets at the standard public price – a legitimate perquisite. Selling on these tickets is not condoned by the All England Lawn Tennis Club, a fact made clear by the penalty-ridden directives given to officials. The Club has taken strong action against those who abuse these privileges – including members. The "cheap headline-seeking politicians" Mr Riley mentions are not, surely, those who make touts their target, but those who make them their cause.

Mrs Teresa Gorman MP can fairly be numbered among the latter. Such advocates will – in the long term – do more damage to the game of tennis than the touts they champion.

Michael Barrett,
Robinson College,
Cambridge

FINANCIAL TIMES

Thursday June 30 1988

Romania closes Hungarian consulate as tension grows

BY LESLIE COLITT IN BERLIN AND JUDY DEMPSEY IN LONDON

TENSION between Hungary and Romania increased yesterday after the Romanians closed a Hungarian consulate.

Romania's move followed Monday's demonstrations in Budapest, the largest independent demonstration in Hungary since the 1956 uprising, in protest at Romania's policies toward the country's ethnic Hungarian minority.

According to the Hungarian official news agency, a demonstration was due to take place in Bucharest, the Romanian capital, yesterday evening in response to the protest march by 50,000 people in Budapest.

The public rift between two Warsaw Pact countries is unprecedented. On Tuesday night, Hungarian diplomats were given 48 hours to leave the consulate at Cluj, the largest town in Transylvania, inhabited mostly by ethnic Hungarians.

The Hungarians are bitterly angry about Romanian plans to demolish 7,000 villages, most of them in Transylvania where some 1.7m ethnic Hungarians live. Hungary also accuses Romania of forcing ethnic Hungarians to adopt Romanian names and of suppressing the use of the Hungarian language.

The decision by Mr Nicolae Ceausescu, the Romanian leader, to expel the Hungarian diplomats will be debated in the Hungarian parliament today.

The Hungarian Government's official response to the expulsion is likely to come in a speech by Mr Matyas Szuroes, the central committee secretary for foreign policy.

Mr Ceausescu yesterday called the demonstration in Budapest, "chauvinist, nationalist, anti-Romanian and anti-Socialist."

He accused the Hungarian Communist Party and Government of sponsoring it.

In a speech to the Romanian Communist Party central committee, he hinted that diplomatic relations between the two feuding countries could suffer further, questioning whether "suitable conditions" existed for the functioning of the Romanian embassy in Budapest. The embassy was under heavy guard during the demonstrations.

In Budapest, the Hungarian Foreign Ministry said the Hungarian Parliament was likely to issue a declaration on the worsening conflict with Romania. Hungary wanted a "peaceful solution" of the conflict, which has smouldered for decades.

Mr Karoly Grosz, Hungary's new party leader, said recently he would visit Romania in the latter half of the year but this now appears highly unlikely.

Transylvanian tension, Page 4

Jeremy Harding and Michael Holman assess the outcome of the latest border clash

Focus of Angolan war shifts south

MONDAY'S clashes at Calueque on the Angolan border with Namibia (South West Africa) between South African and joint Cuban-Angolan forces are the almost inevitable outcome of a military build-up in which the focus of the 13-year war has been shifting south.

On the face of it, the fighting, in which South Africa claimed to have killed 300 Cubans and Angolans for the loss of 12 of its own troops, could scuttle the current US initiative to end the Angolan war and implement a UN settlement plan for Namibia.

That may yet prove to be the case. But a less pessimistic assessment suggests that the military manoeuvrings by all protagonists – South Africa, Cuba, Angola and the South African-backed Unita rebel movement – are designed to secure advantages at the negotiating table, and to anticipate a regional settlement in which Unita's ties with South Africa are severed.

It is a war which ebbs and flows, with several operational areas. However, events in recent months indicate three important developments:

- South Africa's defeat in the battle for the strategic, south-eastern centre of Cuito Cuanavale.
- A Cuban drive southwards, apparently designed to drive a wedge between Unita and the main South African bases in northern Namibia;
- A possible shift to northern Angola of Unita's main base, in a move which would "decouple" the movement from South Africa, both militarily and diplomatically.

Following the collapse of the Angolan Government's dry season offensive last year against the Unita stronghold of Mavinga in the south-east, all eyes have been focused on the epic counter-offensive by South African and Unita forces against Cuito Cuanavale.

But the long defence of this key town, which has tied down many of the 40,000 or more Cuban troops based in Angola, appears to have paid off for the Angola Government.

Since March, the Angolans and Cubans have occupied a secure forward position some 5km beyond the town.

The valuable airstrip at Cuito Cuanavale is still reported unuseable and the town comes under half-hearted bombardment from long-range South African artillery. But many observers believe this front is no longer decisive.

Far more dramatic developments have occurred to the west, where an estimated 15,000-strong contingent of Cuban troops, backed by Angolan forces, has moved south through the provinces of Namibe and Cunene to take up positions hard on the border with Namibia.

The most detailed information on the new deployments remains Granma, the official Havana daily, which last month published maps showing a southward 200km advance by Cuban and Angolan troops.

The newspaper dates the deployment from March and reports that the Cubans are accompanied by fighters belonging to Swapo, the Namibian independence movement.

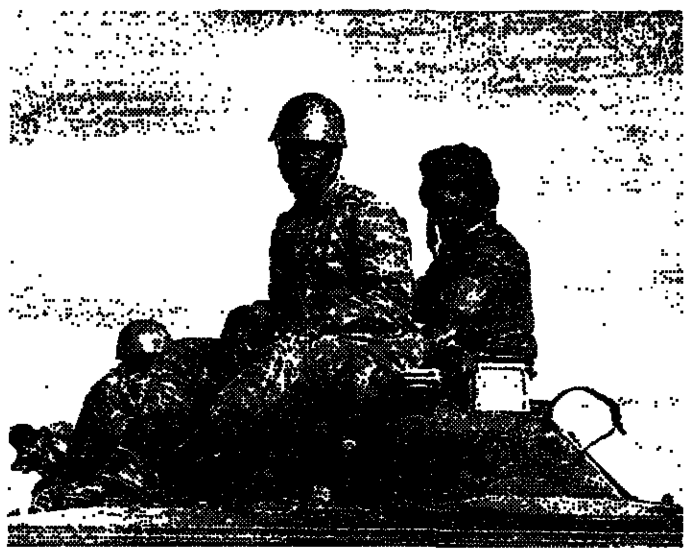
Its guerrilla bases in Angola are the ostensible reason for South Africa's military presence in the former Portuguese colony.

Elsewhere in Angola, Government forces have been hard pressed to sustain existing defences and respond to new areas of Unita activity.

In the central province of Bie, a vital bridge on the Cuanza river is down and a front opened by Unita late last year is still active after intense fighting throughout December and January, when the Government finally held the town of Cuemba.

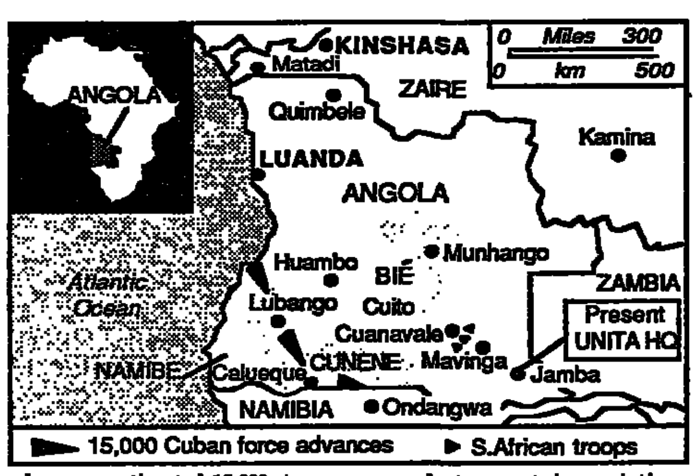
Local officials in Bie, who believe that the move on Cuemba was an attempt to draw troops away from Cuito Cuanavale, also maintain that Unita's offensive was masterminded by a commando of some 40 Portuguese and South African irregulars still present in Munhango, 30 miles further east.

Now, however, Unita has moved to the north of the province, says Mr Luis Paulino Dos Santos, Bie's provincial commissar, to open yet another front at N'Harea, in the hope of drawing the fire of Government forces from Cuemba.



Akwe Amosu

Angolan Government tank forces patrolling their southern front at Cuito Cuanavale



In the nearby city of Huambo, Unita operations jeopardise the arrival of goods by road and rail from the coastal town of Benguela.

At night in Huambo there is small arms fire in the streets and the city, which suffered one of Unita's biggest car bomb attacks over a year ago, is burdened with security problems.

Petrol and spare parts are in chronically short supply. Most of the city itself has no electricity by day, no running water and very little food.

Dozens of children maimed by Unita landmines lie in pain in the city hospital because there are not enough drugs reaching Huambo.

The effectiveness of Unita infiltration in Huambo can be justly claimed by the rebels as a success story – and one which makes amends for their comparatively poor showing in the south.

But reports that the entire rebel operation may now be relocated in the north of the country, with Washington's support, have far greater repercussions in military and diplomatic terms than any developments in the central provinces.

Although denied by Unita's spokesmen in Britain, there have been repeated suggestions that the rebels may be preparing to move from their present south-eastern base at Jamba.

Under the new strategy, Unita would open a base at Quimbele, near the northern border with Zaire, which would be supplied via the Zairean port of Matadi. US military supplies to Unita are already being channelled through Kinshasa and the air base at Kamina, in southern Zaire.

If it were to materialise, such a move would have far-reaching implications.

It would "decouple" Unita from South Africa – a possibility Mr Savimbi has to plan for, since a successful outcome to the current Angolan peace talks would end Pretoria's direct support for the rebels, currently channelled via Namibia.

It also has considerable diplomatic advantages for Mr Savimbi, whose courting of black Africa has been hampered by his South African connection.

But in the meantime the risk remains that the skirmishing on the Angola-Namibia border could develop into a confrontation which dashes prospects for peace.

US tries to keep the peace talks going

By Anthony Robinson and Michael Holman

DIPLOMATIC EFFORTS designed to keep the Angola-Namibia peace talks on the rails got under way yesterday in the wake of Monday's clash between South African and Cuban and Angolan forces.

The South African Government has sent messages to Angola and to the US Government, which is co-ordinating current efforts to end the war in Angola and bring independence to Namibia (South West Africa).

A US State Department spokesman said both sides had been warned of the dangers "inherent in maintaining hostile forces in close proximity", and stressed that Washington "remains determined to continue efforts to facilitate a peaceful resolution."

Conflicting accounts emerged of the fighting near the Angolan border, with both sides accusing the other of initiating the exchange and revealing wide discrepancies in casualty figures.

The South African Defence Force, which originally said that 200 Cubans and Angolans had died, raised this to 300 at a briefing yesterday, while putting South African losses at 12.

But the official Angolan news agency, Angop, in the first response from Luanda, accused South Africa of provoking the exchange when its forces near the Calueque dam shelled Angolan positions. The agency claimed that only eight Angolan soldiers died, while 26 South Africans were killed. It made no mention of the Cuban involvement.

South Africa has sent messages to Washington and Luanda questioning the utility of continuing four-power peace negotiations. After last weekend's round in Cairo, the parties agreed to meet again in the United States.

Western diplomats, however, saw Pretoria's latest diplomatic move as an indication that South Africa has not decided to break off the talks but intends to exact the maximum propaganda mileage out of what General Magnus Malan, the Defence Minister, described as a "treacherous attack".

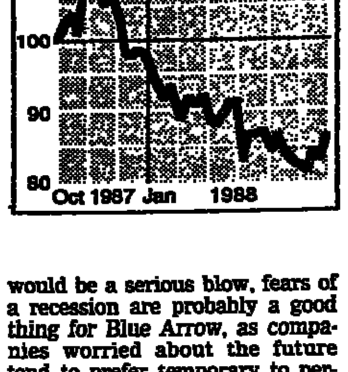
The view from Pretoria is that Monday's incident showed that Cuba is the "wild card" in the negotiations and raises fresh questions about the degree of Soviet or Angolan government control over Cuban military actions.

THE LEX COLUMN

Taking the long view on GEC

GEC's full year figures inevitably bring to mind this week's depressing McKinsey report on the UK electronics industry. The industry's problems are those of GEC: undue reliance on defence and telecoms, not enough emphasis on growth markets, and too much attention to short term asset management rather than long term strategy.

The last is especially galling in view of GEC's bitter complaints about the short term view of the stock market. Over the past 10 years, growth in pre-tax profits has averaged 8 per cent: over the past five years, 1 per cent: in the past three years, profits have fallen by 2 per cent overall. In marking the shares down by 70 per cent relative to the All-Share over the past five years – and ignoring the seductions of dividend increases – the market has arguably shown an appreciation of the long term problem, which is that the company has missed out on the growth areas in its industry.



Last year's increase of 2 per cent in pre-tax (before exceptionals) will probably be improved on this year, but not by much. GEC's problem remains obstinately the same: after successfully broadening from old-style electricals to electronics a decade and more ago, it has failed to move on since. The McKinsey report half suggests that the UK industry is dwindling to extinction. If that were really so, a fundamental realignment of the company would be called for - carried out either by the existing management, or a new one.As things stand, neither seems likely. Bulls of GEC argue that after a five year decline the shares have to turn the corner, but it would not do to count on it.

Blue Arrow

Yesterday's market did not seem to think so, but there must be worse things in life than to be stuck with Blue Arrow shares worth exactly one third less than one paid for them. Eventually, there seems little doubt that the growth of the employment services market worldwide will compensate for whatever the City can do to the share price in the meantime. The recessions of the early 1980s seem to have brought about a permanent structural change in the employment market to favour the kind of contract and temporary labour which Blue Arrow is only too happy to supply. And while a real recession would be a serious blow, fears of a recession are probably a good thing for Blue Arrow, as companies worried about the future tend to prefer temporary to permanent staff.

But for those shareholders who stumped up £837m last September at 166p a share to finance the Manpower purchase – not least of them County NatWest, which found itself with a 9.4 per cent stake – 111p must not seem like much of a price, especially if the downtrend continues. And continue it probably will, at least until the numbers of interested US investors can be made to match the number of UK institutions selling into strength. With the stock on a prospective p/e of nearly 14 times, even after yesterday's 10 per cent fall in the price, that equilibrium may not be reached for some time to come.

Self-investment

The proposals on self-investment from the National Association of Pension Funds look like adding some spice to the fund manager's job over the next few years. It is slightly unnerving to find that a quarter of pension funds invest in their own company's shares, loans or property, and the conclusion that all equity self-investment should be dumped within five years is correspondingly radical.

It looks sensible to make less fuss about loans and property. For a fund to buy its company's London office block might be justifiable, as might be the granting of a loan. The snag is, of course, that if such transactions are purely at the market rate, there is no special reason why the fund should turn to its company rather than any other. Meanwhile, indexed funds will presumably have to introduce a bias by leaving their own company out; but there are funds, after all, which might benefit by that.

Thorn EMI

Thorn EMI's shareholders may have been well satisfied with its results yesterday - as evidenced by a 19p rise in the share price - but they were not half so satisfied as the company itself. Perhaps Thorn should be allowed some self-congratulation for having increased its profits by 41 per cent, reduced gearing from 30 to 9 per cent, and generated £500m in cash. But its rating shows the market still does not believe it capable of growing faster than the average, despite all its fine words. Part of the problem is Inmos, and the interminable time that finding a partner is taking. All that now seems overdone, as Inmos is at last making money, and in any case this year will require no more investment than is needed to cover the depreciation charge.

Meanwhile each of its other four core businesses have been enjoying a good mixture of recovery and growth, and even Rent-A-Centre, which seemed expensive when acquired last year, is apparently beating Thorn's - undisclosed - expectations. Even though it is now a tidier group than before, its businesses are followed by a diverse crowd of analysts, giving the City a confused total image of the company. This may be changing, but a 15 per cent outperformance in the last three years does not give full recognition to the distance Thorn has travelled over the period.

Discount houses

The discount houses have little to fear from the Bank of England's plans to break up their cartel. The reason is not, as Cater Allen suggested this week, that competition will mean liquidity and more business, but that being a discount house is so wretchedly unprofitable that the club does not look a particularly attractive one to join. The natural candidates would appear to be the likes of BZW and S.G. Warburg, who seem to want to be all things to all men. They might do better to look at the margins in the discount market, and wonder whether they really want to commit £100m or so of capital to a business which the most established and experienced players are diversifying away from as fast as they can.

Fiat may sell Westland stake to US group

BY MICHAEL DONNE IN LONDON AND ALAN FRIEDMAN IN MILAN

FIAT, the Italian automobile and aerospace engineering group, is considering the sale of its 7.75 per cent voting ordinary shares in Westland, the UK helicopter, aerospace and general engineering group, to United Technologies Corporation of the US.

No price was put on the possible deal, which UTC said in East Hartford, Connecticut, yesterday was still in its "very earliest" discussion stages, with a decision not expected until later on in the year.

UTC already holds a 7.75 per cent ordinary voting stake in Westland, acquired, as was the Fiat holding, in the extensive restructuring of the Westland Group in 1986.

At that time, the future of Westland created a serious political crisis in the UK, leading to the resignation first of Mr Michael Heseltine as Defence Minister and later of Mr Leon Brittan as Trade and Industry Minister.

In addition to their issued voting ordinary shares, Fiat and UTC hold significant amounts of non-voting preferred shares. These, if converted into voting preferred shares, together with warrants to subscribe for ordinary shares, would give Fiat and UTC together a total voting shareholding of just under 30 per cent of the fully diluted Westland capital.

Reports from Italy that Fiat's holding amounted to 21.78 per cent were dismissed as incorrect.

Fiat's decision to consider selling its Westland stake was revealed yesterday at the annual meeting of Fiat in Turin by Mr Gianni Agnelli, chairman, who said that such a sale was "more probable than anything else."

A spokesman for Fiat later explained that the company no longer regarded the Westland shareholding as strategically significant, although the two companies undertake substantial business together, especially in helicopter components.

UTC confirmed that there had been contacts with Fiat. But it is understood that no serious discussions have begun, and that it would be some time before anything was settled.

Westland's view is believed to be that the share deal would not make any significant difference to its business relationships with either Fiat or UTC.

Westland has received a substantial inflow of work on the production of the Sikorsky Black Hawk helicopter, called by Westland the WS-70 Light Support Helicopter.

The original agreement between Westland and UTC provided for an inflow of 2m man-hours of work with Westland, and it is understood that this is proceeding well, and ahead of schedule.

Westland has the right to manufacture and sell the WS-70 but so far no firm sales have been achieved, although Westland is pursuing a number of potential contracts.

Nevertheless, if the share deal goes through, UTC will have a significantly strengthened position in Westland, and thus also in the European helicopter industry.

UK plans new secrecy laws

Continued from Page 1

courts that a breach of security was likely to result in specific harm to the public interest.

However, tougher laws will be introduced to deal with members of the intelligence and security services such as MI5 and MI6. The prosecution would not have to prove their leakage of information had harmed the national interest or damaged the service.

In a sweeping proposal which came in for criticism last night, such officers would commit an offence simply by making any disclosure relating to security or intelligence "or which is intended to be taken as such."

This would also apply to former officers – a clear attempt to prevent a repetition of the embarrassing case involving former MI5 officer Mr Peter Wright and his controversial Spycatcher book.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	25	77	Dubrovnik	S	26	79	Malta	S	31	88	Rhodes	S	31	88
Algiers	S	29	84	Edinburgh	F	16	61	Manchester	C	20	68	Rio de J'o	C	28	82
Amsterdam	C	17	63	Faro	C	20	68	Manila	F	33	91	Rome	F	27	81
Athens	F	34	93	Florence	F	27	81	Melbourne	C	14	57	Salzburg	F	23	73
Bahrain	S	34	93	Frankfurt	R	26	79	Mexico City	R	28	82	San Francisco	F	24	75
Bangkok	F	36	97	Funchal	F	22	72	Miami	C	31	87	Seoul	C	26	79
Barcelona	F	25	77	Geneva	S	23	73	Milan	S	25	77	Singapore	R	28	82
Beirut	F	28	82	Gibraltar	S	23	73	Montreal	R	21	75	Stockholm	C	27	80
Belfast	F	19	66	Glasgow	C	19	64	Moscow	F	25	77	Strasbourg	S	25	77
Belgrade	F	27	81	Guernsey	Fg	16	61	Munich	F	22	72	Sydney	F	17	63
Berlin	S	25	77	Helsinki	F	27	81	Nairobi	C	22	72	Taipei	C	34	93
Biarritz	F	25	77	H. Kong	C	31	88	Naples	S	26	79	Tangier	F	23	73
Bombay	F	30	86	Innsbruck	C	22	72	Nassau	C	32	90	Tel Aviv	S	36	97
Bordeaux	F	24	75	Inverness	F	15	59	New Delhi	C	38	100	Tenerife	R	21	70
Brussels	F	21	70	Islamabad	C	34	94	New York	C	30	86	Tokyo	C	24	75
Budapest	T	23	73	Istanbul	C	28	82	Nice	S	24	75	Toronto	C	27	81
B. Aires	F	15	59	Jakarta	C	33	91	Nicosia	F	38	100	Tunis	S	27	81
Cairo	S	42	108	Jersey	C	18	64	Oporto	R	19	66	Valencia	S	25	77
Cape Town	S	24	75	Jo'burg	F	11	52	Oslo	C	27	81	Venice	F	26	79
Caracas	R	26	79	Lima	C	18	64	Paris	C	23	73	Vienna	F	26	79
Casablanca	S	23	73	Lisbon	C	20	68	Peking	C	30	86	Warsaw	F	24	75
Chicago	R	17	63	London	C	22	72	Prague	T	21	70	Washington	C	23	73
Cologne	T	20	68	Los Angeles	F	27	81	Reykjavik	C	9	48	Zurich	F	23	73
Copenhagen	S	23	73	Luxembourg	T	19	66								
Corfu	S	32	90	Madrid	C	23	73								
Dallas	C	25	77	Majorca	F	24	75								
Dublin	C	16	61	Malaga	S	22	72								

Readings at mid-day yesterday

C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Debate erupts over Gorbachev reforms

Continued from Page 1

would confuse the distinction between party and state which Mr Gorbachev is seeking to create.

Another difference was on the term of office for party officials, although most agreed that two five-year terms should be the maximum. Ironically it was only the arch-reformer, Mr Ulyanov, who proposed that outstanding devotees of *perestroika*, like Mr Gorbachev, should be allowed a third term.

A key missing element in Mr Gorbachev's reforms was singled out by one speaker, a Communist Party secretary from the Ukraine, who said that if the party was to reduce its interference in executive decisions, then important parts of the party bureaucracy must be disbanded.

He said the industrial divisions of the party, responsible for issuing instructions to factories and other enterprises, should be wound up – a shocking prospect for party functionaries, who make up a very large part of the conference, and one which the party leader himself stopped short of spelling out.

However, the debate appears to have begun, for all its sharp tone, along just the sort of lines intended by Mr Gorbachev, who defended the plurality of views, instead of a "new monopoly."

"It is not that one monopoly should be replaced with another," he said, "one half-truth with another. What is needed is not thinking who will occupy one or another seat, but thinking about the country, about the fate of the country. Then we will find the truth."

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INTERNATIONAL APPOINTMENTS

Denison Mines president joins Lawson Mardon

LAWSON MARDON, the Canadian-based packaging and printing concern formed in August, 1985, through a leveraged management buyout of the UK and Canadian packaging arms of the UK-based BAT Industries tobacco, paper, retail and financial services group, has appointed Mr John D. (Jake) Fowler to the board as a non-executive director.

Mr Fowler, 57, president and chief operating officer of Toronto-based Denison Mines since November, 1985, has filled the vacancy created by the death three months ago at the age of 66 of Mr Stephen B. Roman, who was a leading figure in the Canadian mining industry.

Mr Roman was chairman and chief executive of both Roman Corporation and Denison Mines, and chairman since September, 1985, of Lawson Mardon. He has been succeeded in his roles at the three companies by Ms Helen Roman-Barber (41), his daughter.

Mr Lawrence G. Tapp was the head of BAT's Canadian packaging arm and masterminded the buyout – then the largest seen in the UK - through a consortium of management and, especially, large backing from Canada. Roman Corp. took an initial 49 per cent stake, now about halved to 26 per cent, and management 20 per cent, since reduced to 11.

Mr Tapp, 50, became president and chief executive from the outset. The buyout had left Lawson Mardon with a great deal of debt. He set about and accomplished reducing this to an acceptable level through divestments of non-core businesses, tighter control of working capital, share flotations and converting some to fixed-rate debt. A share quotation was granted on the Toronto, Montreal and American stock exchanges from June last year, and the shares became listed in London from April this year.

The company is now expanding through selective acquisitions, concentrating on the packaging and containers industry for consumer products. At present, sales and profits are roughly produced 70 per cent from Europe as opposed to about 30 per cent from North America. Mr Tapp wishes to make it around a 50:50 split for business between the two areas, partly as a currency hedge.

Mr Fowler worked for Lake Ontario Cement between 1962 and switching to Denison in 1985, holding various executive posts and becoming president and chief executive for the final six years.

Leadership change at McKinsey

A CHANGE of leadership takes effect from tomorrow at McKinsey, the US-based worldwide management consultancy group.

Mr Frederick W. Gluck succeeds as managing director of the group Mr D. Ronald Daniel, who has held the post for four three-year terms. The latter is returning to consulting with McKinsey clients, as has been the custom with past managing directors.

The managing director of McKinsey serves as its senior partner, in effect the first among equals. Mr Gluck, 52, was selected for the position in early January through a ballot of the group's 101 directors.

Founded in 1926, McKinsey has 38 offices on five continents and a staff of more than 1,500 consultants. This represents an increase of 14 offices and nearly 1,000 consultants since the beginning of Mr Daniel's tenure in 1976.

Mr Gluck joined McKinsey in 1967 after a period of 10 years at Bell Telephone Laboratories, where he worked in programme management, systems analysis and hardware design, lastly as programme manager for the Spartan anti-missile missile.

At McKinsey, he has consulted with clients in Europe and the Far East as well as the US, primarily in the telecommunications and electronics industries, but also in several others. Much of his work has focused on issues of strategic management.

Mr Daniel observed that Mr Gluck has "played the central leadership role in rejuvenating and redirecting the firm's knowledge development efforts during the past 10 years."

Post on US board for NERA UK managing director

THE US-based National Economic Research Associates Inc. (NERA), a firm of consulting economists and part of the US Marsh & McLennan world leading insurance broking concern, elected to the NERA Inc board of directors in New York Mr Dermot Glynn, managing director of its NERA operation in the UK.

NERA provides research analysis and expert testimony in many areas of business and public policy, for instance antitrust, energy and public utilities.

Mr Glynn has been a member of the economics faculty at Cambridge University, economic director of the Confederation of British Industry (CBI), and chief economist of Peat Marwick, which merged with Klynveld Main Goerdeler 18 months ago to form KPMG, the world's largest accountancy and management consultancy group.

In the UK, NERA's current assignments include economic studies of: privatisation issues for the water and electricity industries; broadcasting policy for Independent Television (ITV); effects of the Loan Guarantee Scheme for the Department of Employment; the horserace levy for the Bookmakers' Committee.

New chief for Shell in Egypt to run expanded operation

BY TONY WALKER IN CAIRO

SHELL Petroleum, the operating group of Royal Dutch/Shell, has appointed Mr Tareq Heggy as its chief representative in Egypt. He was previously deputy general manager of Shell Winning, its wholly owned operating subsidiary for the Egyptian region.

Mr Heggy, 37, becomes the first Egyptian to head Shell's operations in that country. He will have oversight of all Shell's activities there, from exploration through to production and marketing. He had held his former post for the past 10 years.

Shell Winning has embarked on an ambitious expansion of its activities in Egypt, bidding aggressively on new acreage in the Western Desert and offshore in the Mediterranean. It is also embarking on a big development of its Western Desert gas deposit, planning to spend some US$400m on the venture to supply gas, mostly to the Egyptian market.

* * *

CHEMICAL BANK, the fourth-largest US banking group, named Mr Roger Ward a vice president and also manager of business development for Banklink International, an indirect subsidiary which supplies information reporting and decision support products and services to the financial industry.

He will be based in London and oversee marketing groups in the UK and Tokyo responsible for all non-US customers.

Mr Ward joined Chemical from Midland Bank, one of the big four UK banks, where he had worked for over 20 years, most recently as corporate electronic banking manager of Midland Global Corporate Bank.

BankLink is a full-service marketing and technology company, currently licensing its electronic banking system to over 90 banks in the US, Europe, Asia and Australia, giving it an end-user base of around 13,500 corporations.

* * *

THE NEW YORK Mercantile Exchange (Nymex), which deals in commodity futures and options and is the world's largest oil futures market, has appointed Mr Ronald S. Oppenheimer vice president and general counsel.

He succeeds Mr R. Patrick Thompson, who was promoted to executive vice president at the Exchange earlier this year.

Mr Oppenheimer, 32, has varied commodity law experience. Most recently, he was an associate with Tenzer, Greenblatt, Fallon & Kaplan, involved in general litigation of commodities, securities and commercial law claims. Earlier in his career, he had been an attorney with the Commodity Futures Trading Commission.

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RETAIL REVOLUTION - FASHION FIRST

c. £26,000 + Car + Profit Share Aged 25-28

Young . . . aggressive . . . competitive. Essential qualities behind our client's fruitful search for success - qualities they are now looking to find in their Finance Manager.

As one of the country's most commercially innovative retailers, they have revolutionised the shopping experience, introducing a series of "firsts" to frustrate the competition and delight the consumer. Ambitious growth plans have created a new opportunity for a recently qualified accountant to take full control of the Finance department, based in Central London.

Reporting to the Finance Director, you will be responsible for the day-to-day running and long-term development of the function, stamping your own personality on the way things are done. You will motivate and manage a small, growing team in a highly-charged environment where new ideas and innovation count for everything. A broad-ranging portfolio of responsibilities will include:

- ☐ **Financial reporting and analysis**
- ☐ **Strategic planning and Budgetary control**
- ☐ **Systems enhancement**
- ☐ **Site evaluation**

The package reflects the importance of this high profile role, and the benefits include profit share, product discounts and private medical scheme.

Please write enclosing full CV, quoting Ref: 155, to **Julia Church** or **Mark Norton** at Mervyn Hughes International Limited, Management Recruitment Consultants, 63 Mansell Street, London E1 8AN. Telephone: 01-488 4114.

High Profile In A New Opportunity

C.London c.£30,000 + Car + Excellent Benefits

Established less than two years ago, this dynamic division is part of a leading institutional investor, with assets running into £billions. Their diverse commercial property portfolio is largely UK based, however there are interests in the USA.

This innovative property fund management organisation operates at the leading edge of the industry, resulting in exciting demands being placed upon its new corporate finance function. The need has been identified for a commercially astute, qualified accountant to lead the team through the next successful growth stage. Enjoying an exceptionally high profile within the organisation, you will work alongside the Financial Director.

Your initial brief will include responsibility for the planning of corporate structures for development initiatives, involving devising innovative property financing packages. This will demand close liaison with property fund managers, lawyers and on occasion merchant bankers. Thus, you will need to demonstrate flair and outstanding interpersonal skills, combined with technical competence. Personality is the most important factor for this job, but knowledge of property organisations and US accounting procedures will be advantageous.

Career opportunities abound in this diversifying group. The excellent benefits package includes a car, a mortgage and a non-contributory pension scheme. Relocation assistance is available.

Write, with full CV and daytime telephone number, to Patrick Donnelly, quoting reference FT/024.

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314/316 Vauxhall Bridge Road, London SW1V 1AA. Tel: 01-828 2273

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FINANCIAL DIRECTOR (Designate)

An excellent challenge for a results orientated Strategist

c£35,000 package + executive car South West

Our client is a highly profitable, acquisitive £30m+ company, operating in the manufacturing sector. Ongoing rapid growth has now highlighted the need to appoint a strong Financial Strategist to join the Senior Management team and have a major input to the company's future development.

Reporting to and working closely with the Managing Director, your brief will be to analyse financial data, advise upon future strategy and implement policy. On a day to day basis, you will manage a dedicated team and have overall responsibility for the company's financial affairs, paying particular attention to maintaining tight financial controls, conducting acquisition investigations and overseeing the implementation of a new accountancy system.

You are likely to be mid 30's+, a qualified accountant, with a proven track record in a high growth, results orientated environment and now seeking new horizons. Ideally with a manufacturing background you must be able to relate at all levels and essentially provide strong and effective leadership.

The rewards reflect the importance of this key role with an attractive base salary of around £27,000 plus significant bonus, executive car, BUPA, non contributory pension and relocation assistance.

Please apply in the strictest confidence to Tony Macdonald (Ref BS 001), DJ Stuart Advertising, 42/45 Byram Arcade, Huddersfield HD1 1ND.

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IMC

CHIEF FINANCIAL OFFICER

Special Health Authority

London c. £27,500

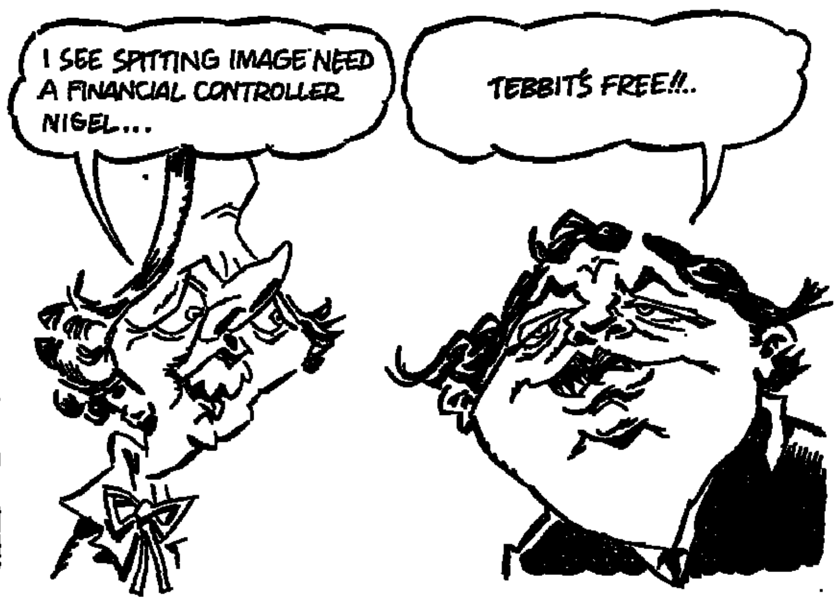
One of the eight London based Special Health Authorities, a Chief Financial Officer is required to take the Authority forward into the next century. The budget is £20 million and capital works in excess of £20 million are in hand, part of an exciting development of facilities and services.

Reporting to the General Manager and to the Board, key objectives include a major computerisation programme, the installation of state of the art management information systems, and the financial oversight of the capital works. Success in this post will require skilful communication throughout the Authority on the objectives and benefits of improved budgeting and management information.

Candidates, qualified Accountants, are likely to be highly experienced in managing a finance department in a complex and very demanding environment. The ability to relate well with and obtain the support of all professional groups is crucial to this appointment and to the financial health of the Authority. Public sector experience is highly desirable, but not essential.

Please apply in confidence with a brief C.V. to:
Chief Executive, IMC Executive Selection Limited, 6-8 Albany Road, Cardiff CF2 3RP

The closing date for applications is Friday 8th July. All interviews will be held in London in July.



If you think Spitting Image the television programme is like nothing you've seen before, rest assured.

Spitting Image the company is every bit as raucous, irreverent – and successful – as you would imagine.

If you're a flesh and blood accountant, and the unconventional interests you, read on:

Essentially, you'll be holding the purse strings of a company with a turnover of upwards of £2 million and profitable enough to please even Maggie. We are currently developing new TV programme ideas and expanding in other areas such as publishing, merchandising, corporate videos and commercials. Our engineering company is developing a brilliant new device to operate puppets by computer.

You're likely to be young, already working in the TV or entertainments business and qualified to ACMA or ACA. Good interpersonal skills are essential, as is the ability to argue your case authoritatively, when the need arises. Entrepreneurial flair would be a big plus as you will work alongside the strong creative team on long term projects.

We'll pay you well for your trouble. And you will enjoy earning every penny of it.

If you would like to be a member of the alternative Cabinet write, telling us how you qualify, enclosing your CV and salary requirement, to our consultant Bob Pink FCA. ref. B.82005. MSL International (UK) Ltd, 32 Aybrook Street, London W1M 3JL.

MSL International

Spitting Image

STIFLED ACCOUNTANT

Has the challenge drifted away? Are the obvious alternatives unsatisfactory? Then consider using your financial and tax skills in a multidisciplinary remuneration consultancy.

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COMPANY SECRETARY

c.£35,000 + car + benefits — South West London

A mature and experienced Company Secretary is required to take up a key position within a large and successful contracting group –with a turnover in excess of £150 million– which is in the process of dramatic change.

The Company Secretary will be responsible for providing a full range of secretarial services to the Group's 40 operating subsidiaries. In addition, the role will embrace pensions administration and advice, insurances, health schemes, employment legislation and administrative policies. The Group has experienced significant growth and this looks set to continue offering tremendous scope for the broadening and enhancement of the role.

Candidates should be qualified company secretaries or accountants who can offer at least 10 years broad based experience which should include a period spent in a public company environment. They must have the maturity and presence to be credible at board level and the ability to work harmoniously as a member of a small head office team. The remuneration package, which is negotiable, will include an attractive base salary plus usual executive benefits.

Please write in confidence, with full career details and quoting reference J1988, to John Hills.

KPMG Peat Marwick McLintock

Executive Selection and Search
9 Creed Lane, London EC4V 5BR

FINANCIAL ACCOUNTING MANAGER

From financial facts to business success

to £28,000 p.a.+ benefits. Hants.

Four Square is part of the International Mars Group and a leading name in quality refreshment systems – delivering millions of products each year to customers in the UK and throughout Europe.

Following an internal development move, we require a young professional Manager for our high-calibre financial accounting team. Your challenge will be to provide accurate up-to-the-minute financial information to support business decision-making at the most senior level, whilst ensuring that "best practice" financial controls are in place. Leading a team of 11, you will produce regular reports, accounts and commentaries for the UK business and consolidate figures for our activities throughout Europe.

A professionally-qualified Accountant, you should have at least two years' experience in either a "Big Eight" practice or a "blue-chip" company. You will already have gained first-line management experience and will demonstrate the potential for promotion to senior management, as this highly visible role creates excellent career prospects within Four Square and throughout the Mars Group. Fluency in a second European language would be an advantage.

Salary will be up to £28,000 p.a. plus a valuable package of non-contributory benefits.

For further details, please telephone or send your C.V. to: Mandy Wythe or Liz Rampton, Four Square Division of Mars G.B. Ltd, Armstrong Road, Basingstoke, Hants RG24 0NU. Tel: Basingstoke (0256) 471500 or (0256) 842955 (outside office hours).

FOUR SQUARE
A MARS GROUP COMPANY

Financial Controller - Treasury

Central London — c£30,000 + car

Our clients are an international, highly profitable, expansion-minded Group (T/o £200m), in which the successful control of its currency exposure and the wise investment of its surplus cash funds are vitally important factors. Reporting to the Group Financial Controller the successful candidate (supported by a small team) will be responsible for the strict financial control of the department. The position is very much a "hands on" role as the success of the dealing operations depends on the provision of accurate information to the dealers, profit and loss being calculated daily using a real-time computer system, which takes price data directly from the U.S. and U.K. markets. Management accounts are produced monthly and advice has to be provided on a regular basis to the less sophisticated overseas subsidiaries. *The successful candidate will be suitably qualified, aged 26-30, who has a good* academic record and is well organised. It would be advantageous if candidates had already gained exposure to treasury accounting in a similar environment but this is not essential for an exceptionally strong applicant.
Ref: 1488/FT. Write or telephone for an application form or send full details (with daytime telephone number and current salary) to R.P. Carpenter, FCA, FCMA, ACIS, 2-5 Old Bond Street, London W1X 3TB. Tel: 01-493 0156 (24 hours).

Phillips & Carpenter
Selection Consultants

Outstanding Young Accountant

MAJOR PLC — c£26,000

Our client is a highly successful Multinational Group, with turnover in excess of £1b and market leadership in their key business areas.

This is an important appointment within the central finance team in the Group headquarters. The main responsibilities are consolidation of the group statutory reporting, handling certain subsidiary company records and monitoring changes in current technical accounting requirements.

Suitable candidates, male or female, should be fully qualified graduate accountants ideally aged in their late twenties. They will need a strong financial background, experience of using computer systems, and the intellect to be effective at the centre of a large corporation. They are likely to be seeking their first commercial appointment from a major audit firm or already working at the centre of a multi subsidiary group.

The successful candidate will be working in a sophisticated, complex and high profile Plc with a wide range of international growth orientated businesses, which offer demanding but excellent career prospects.

In addition to a salary of c£26,000 there are the normal major Group benefits. The job location is central London.

Please reply in confidence with a comprehensive CV, quoting reference 1467 to David Thompson, Managing Director, Bull Thompson & Associates Ltd, Alliance House, 63 St Martin's Lane, London WC2N 4JX, who is advising on this appointment.

Bull Thompson
CORPORATE AND RECRUITMENT CONSULTANTS

WATERSTONE & Company

COMPANY ACCOUNTANT £20–25,000

Our client, Waterstone's, is a rapidly expanding, independent, entrepreneurial bookstore chain. They have an impressive record of innovation, growth and profitability and are acknowledged as one of the fastest growing in their field.

This growth coupled with their anticipated Stock Market listing has created the opportunity for a Company Accountant to assume responsibility for the finance and accounting functions. Reporting to the Financial Controller and supervising 15 staff, you will be responsible for the production of management information and statutory accounts; recommendation and implementation of accounting policies, and the day to day running of the company's accounting activities.

Candidates, aged 26-32, will be qualified (either ACA or CACA), with a minimum 18 months post qualification experience. Above all they will be enthusiastic self starters with the personal and management skills suited to a proactive role in a dynamic environment. A commercial awareness is essential, a literary interest preferable.

Career prospects are outstanding.

If you are interested in this challenging role, please contact Ingram Losner, consultant to the Company on 01-439 0058 (daytime), 01-951 4587 (evenings/weekends); or write enclosing brief career details in strictest confidence to LAWSON BAKER, Freepost 31, London W1E 5RB.

LAWSON BAKER
Financial Recruitment Consultants

A.C.A.s

Corporate Finance £24-28,000+benefits

The continuing growth of this highly regarded and innovative U.K. merchant bank has lead to a requirement for a number of young professionally qualified individuals to join its corporate finance division.

This is an excellent opportunity for high calibre Chartered Accountants to undertake a demanding, fast moving and rewarding role, with excellent long term career prospects.

Mergers & Acquisitions c£30,000

Our client, one of the most prestigious U.S. investment banks, is looking to expand its small but highly successful mergers and acquisitions unit by recruiting a number of A.C.A.s.

They offer the opportunity to participate actively in the initiation and transaction of cross-border deals.

Candidates will need commitment, drive and ambition to succeed in this stimulating environment.

Contact Penny Bramah or Lindsay Sugden A.C.A. on 01-404 5751 or write to them at Michael Page City, 39-41 Parker Street, London WC2B 5LH.

MP
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International Recruitment Consultants
London Paris Amsterdam Brussels Sydney

Financial Controller

London West End — £22,000 - £25,000 + Car + Benefits

An exciting challenge in property accounts

As a leading company of Surveyors, our highly prestigious client can demonstrate a track record of achievement and success that is second to none. In order to maintain and build upon this enviable status, it is essential that they implement and exercise strict financial controls. To this end, they are seeking to appoint an ambitious individual to the key post of Financial Controller.

Reporting directly to the Board, you will assume overall responsibility for the property management accounts department, including the control and motivation of a 20-strong team. Undertaking a significant degree of MIS development, your wide-ranging responsibilities will encompass the production of client accounts, preparation of departmental budgets and recruitment and training.

Applicants, aged late 20's - mid 40's, should preferably be qualified accountants, and must certainly be able to demonstrate exceptional communications and interpersonal skills. Previous experience in a property accounts department, ideally gained at a senior level, would be a definite advantage, but is not essential.

In any case, you should possess substantial all-round experience in a management accounting environment, including a sound knowledge of computerised systems.

In addition to a highly competitive negotiable salary and company car, you will receive a comprehensive benefits package, including BUPA, contributory pension scheme and bonus (after a qualifying period). Excellent opportunities exist for sustained career development, both within the company and the substantial holding group.

Please write, with full career details and salary history, quoting Ref: SHA 1034, to Roger Hughes,

SH **Stoy Hayward Associates**

MANAGEMENT CONSULTANTS, EXECUTIVE RECRUITMENT DIVISION, 8 BAKER STREET, LONDON W1M 1DA

هكذا من الأصل

FINANCE DIRECTOR DESIGNATE

London c.£35,000 + car

Our client is the UK subsidiary of a major international trading company. The Group has interests in Europe, USA, Africa, South East Asia and South America. UK turnover is around £40m.

A Finance Director Designate is required, who will work closely with the Managing Director of the UK operation and liaise with European subsidiaries. This is a broad ranging role covering all aspects of the accounting and financial management of the company with a requirement to become involved in the wider commercial aspects of the business.

Candidates should be qualified accountants, preferably chartered with around 3-5 years post qualification experience, a good understanding of computerised systems and, ideally, previous exposure to multi-currency accounting. The ability to communicate with all levels of management and to work closely with senior executives in the Group head office is essential.

The remuneration package, which is negotiable, includes a range of benefits appropriate to this substantial international group.

Please write in confidence enclosing career details, quoting ref 7401, to James Forte.

KPMG Peat Marwick McLintock

Executive Selection and Search
9 Creed Lane, London EC4V 5BR

Finance Manager

Pharmaceutical Industry — International Role
c £40,000 plus executive benefits — Southern England

Characterised by dynamic management and an assertive approach to marketing, our client is the international trading arm of a major pharmaceuticals group. Active in over 70 countries, its rapidly expanding business demands a close understanding of local operations.

This opportunity, resulting from a recent promotion, calls for an accomplished financial executive who can combine technical excellence with an active and progressive approach to financial management gained in a competitive international field.

Probably in your early forties, you will have the all-round business perception to contribute positively on a strategic level and have a broad awareness of the commercial and cultural challenges of the developing world.

Reporting to the Divisional Managing Director, your specific responsibilities will include statutory and management reporting, financial review/analysis of major projects and Group liaison with particular reference to foreign exchange policy. The role involves a significant overseas travel commitment – in return our client offers an upper quartile salary with first-class benefits including car, executive share scheme, travel benefits.

Please write with full details including current salary – in confidence – to Nigel Bates FCA, quoting ref. B.34023.

MSL International

MSL International (UK) Ltd,
32 Aybrook Street, London W1M 3JL.
Offices in Europe, the Americas, Australasia and Asia Pacific

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NORTH OF ENGLAND BUILDING SOCIETY

ASSISTANT GENERAL MANAGER (FINANCE)

Sunderland Attractive salary + car + benefits

Our client, North of England Building Society, is a progressive and expanding regional society with assets exceeding £500 million. Arising from retirement, the Society wishes to appoint an Assistant General Manager (Finance) to its senior management team.

The successful applicant will head the Society's accounting function and will have overall responsibility for treasury, financial procedures and control. The broadening range of services provided by building societies demands an innovative attitude to the role in addition to the rigorous professional approach essential for success in a financial institution.

This opportunity will be of particular interest to candidates who see their longer term future in general management. Success in the role could provide access to more senior posts where the candidate would play an important part in developing the Society's future strategy.

Applicants should be qualified, preferably chartered, accountants, probably in their thirties, who have had relevant experience in the financial sector. Emphasis will be placed on candidates' readiness to meet the challenge presented by the newly enlarged powers of building societies. Personal qualities will, therefore, be important in making the final selection decision.

The attractive remuneration package will include the provision of a motor car, concessionary mortgage facilities, contributory pension and life assurance scheme and BUPA membership. Assistance will be given with re-location expenses where appropriate.

Please apply, in confidence, enclosing a full curriculum vitae to
David Bannister, Executive Selection Division,
quoting reference number L/835.

KPMG Peat Marwick McLintock

Executive Selection and Search
City Square House, 7 Wellington Street, Leeds. LS1 4DW.

Financial Controller

... For a dynamic financial services business

c £30k + car + excellent benefits — West London

There can be very few organisations who can match the credentials of our client. In business terms alone they have more than doubled the volume of business in the last two years and have the backing of a dynamic and substantial international banking group who are intent on further developing this sales driven business.

We seek a qualified accountant, probably aged late 20's/early 30's who possesses the management skills and professional credibility to operate as a senior member of the management team at a time of exceptional growth.

Initial responsibilities will include management and development of financial controls, further development of established information and planning systems, product evaluation, contributing towards the corporate planning function and management of a small financial control team.

You would enjoy a broad brief to continue the development of the financial function within this entrepreneurial, forward thinking organisation. This is a really excellent career opportunity.

The benefits package is attractive too. Initial salary negotiable to c. £30k with a review after six months, low cost contributory pension, fully expensed company car, and heavily subsidised mortgage scheme plus relocation expenses where appropriate.

Our client is an authorised institution under the Banking Act of 1987.

Please send your CV to Phil Bainbridge, quoting ref. B.35088 at:

Offices in Europe, the Americas, Australasia and Asia Pacific.

MSL International

MSL International (UK) Ltd., Pilgrim House,
2/6 William Street, Windsor, Berks. SL4 0BA.
Tel: 0753 842044.

NEWLY QUALIFIED ACA

N. SURREY £25,000 package

This innovative financial services group has plans to multiply its profits 6 fold in the next 12 months, both by acquisition throughout the UK and via new business development. Currently a subsidiary of a major financial institution, it provides advisory services in investment management, stockbroking, banking and financial planning for an impressive client base.

The company seeks to complement its existing finance team by recruiting for a newly created financial accounting role. This will involve responsibility for the investment management and banking activities of the business, in addition to other areas such as treasury management and systems development. Exceptional prospects for promotion will be linked to your personal performance, in conjunction with the success of the company's dynamic growth plans.

This position offers an exceptional opportunity to work with a young management team of the highest calibre. It is imperative that you possess a forceful and lively personality, coupled with demonstrable ambition. Aged 24-27, you will be a graduate Chartered Accountant and come from a major firm.

*For further details, contact **Fiona Birt-Llewellin** or **Leon Hawthorne** on **01-629 4463** (evenings & weekends **01-542 2159**). Alternatively write enclosing a curriculum vitae to the address below.*

HARRISON WILLIS

FINANCIAL RECRUITMENT CONSULTANTS

Cardinal House, 39-40 Albemarle St., London W1X 3FD. Tel: 01-629 4463.

CITY RECRUITMENT BOOM

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Average earnings now exceed £24,000 including renewal commissions.

A £6 million TV advertising campaign will ensure that 1988 is our best year ever. Aged 25 plus, have you got what it takes to secure your future? Find out.

Call Ros Hurley on 01 404 4599 or send brief career details to her at

Allied Dunbar Assurance plc,
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HONOURS DEGREE plus PROFESSIONAL QUALIFICATIONS

You're young, intelligent, ambitious and looking for a fast track career path with an expanding international organisation.

You are committed to turning your hard won professional qualifications and experience into hard cash and solid career prospects.

You are a self starter, mobile and eager to play an important financial role with one of the world's most progressive energy companies.

We are looking for young, fully qualified accountants from the Profession or industry.

Essential qualities include sound commercial awareness, initiative, excellent communication skills and an eagerness to work in a demanding and fast-moving operational environment.

We will start you on a fast-track career programme, commencing in Aberdeen, with structured training and development which will take you to other parts of our UK and worldwide operations.

Initial roles will take account of your existing experience and cover financial analysis, operational accounting, statutory accounting and taxation.

An excellent remuneration package is available with market-related salaries and a valuable benefits package including attractive relocation assistance where appropriate.

Put yourself on a fast-track career path with one of the world's most progressive oil companies.

Telephone or write for a detailed information pack and application form to:
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In 1987 Total Oil Marine achieved a major success in the history of the North Sea. The Alwyn North field became the largest oil and gas development to have been brought on-stream in the U.K. sector of the North Sea during the last three years.

As Alwyn North moves towards full operational activity, effective management accounting is crucial in the context of continued success and further development.

Based in Aberdeen, and reporting directly to the Head of Management Accounts, you will ensure the accurate and timely preparation of management accounting information.

This will involve the review and interpretation of monthly accounts, forecasts and cash calls, as well as follow-up discussions with partners and senior management. In addition, you will be actively involved in year-end closures.

This position calls for a qualified Accountant, either CA, CIMA or ACCA with at least four years' post qualifying experience in a substantial industrial environment. Ideally a graduate, with a good knowledge of computer accounting systems, you will be a team builder, and have excellent negotiating skills. Experience of venture accounting within the oil and gas industry is desirable.

In return for commitment you will be offered an attractive index-linked salary, around the figure quoted, year-end bonus, BUPA, contributory pension scheme, free life assurance, subsidised restaurant, and where appropriate, a generous relocation package. Career prospects within the company, in Aberdeen or elsewhere are excellent.

If you want to progress your career in a fast-moving environment, please write with full C.V. or, alternatively, telephone for an application form to:-
Irene Slater, Recruitment Officer,
Total Oil Marine plc., Crawpeel Road, Altens, Aberdeen AB9 2AG. Tel: (0224) 858172.

Broadening Horizons

Manager - treasury

Hampshire, c. £30,000 + car

C&L

For a major leisure and services organisation, operating a variety of businesses with total income exceeding £300m and funds under central management of £70m. This important new post has been created to give greater emphasis to treasury management and to coordinate tax compliance throughout the Group.

Reporting to the General Manager - Finance, and managing a small team, you will implement effective treasury planning for all the businesses, to increase investment income, reduce borrowing costs and optimise the use of working capital. You will manage the treasury function and monitor the performance of all external investment managers for the Group. Your role will also include the management of the Group's tax compliance and accounting function, coordinating the relationships with external advisors and Government authorities.

A qualified accountant, you should have at least three years' treasury management experience, preferably in a large commercial organisation. With an innovative approach to solving business problems, you should be accustomed to influencing at senior levels.

This progressive environment presents ample scope for further career development.

Résumés, including a daytime telephone number to Robin Alcock, Ref: RA912.

Coopers & Lybrand Executive Selection
Coopers & Lybrand Executive Selection Limited
Shelley House 3 Noble Street London EC2V 7DQ

STRATEGIC ROLE – MERCHANT BANKING

Newly/recently Qualified Accountant

Central London £22,000 – £25,000 + Car + Banking Benefits

An exceptional opportunity for a newly/recently qualified accountant to influence the commercial direction of a key subsidiary in this Top 12 UK Merchant Bank.

Reporting directly to the Board, this entrepreneurial Controllership role carries a high level of decision-making autonomy. A broad spectrum of responsibilities will include:–

▲ Identifying and developing new business opportunities.
▲ Profit analysis, budgets and forecasts for current ventures.
▲ Treasury advice and cash-flow management.
▲ Controlling and motivating a small team.

Success will be rewarded by promotion to the post of Financial Director within three years.

In addition to a highly competitive salary and company car, you will receive a comprehensive range of benefits, including profit share, management bonus and subsidised mortgage.

For further information, please contact NICOLA LENDRUM on 01-404 3155 at ALDERWICK PEACHELL AND PARTNERS LIMITED, Accountancy and Financial Recruitment, 125 High Holborn, London WC1V 6QA.

Alderwick and Peachell PARTNERS LTD

Account Manager Financial Services

Bristol

Our client is a world leader in assisting multi-site retail operations to enhance network and individual branch performance. Already well-established in the Financial Services sector, the Company now wishes to consolidate its position in this rapidly changing environment by appointing an Account Manager with specific responsibility for developing business in this key area.

Of graduate calibre, you will already be intimately familiar with the operations of a major banking or other retail Financial Services organisation. A knowledge of branch operations is particularly desirable gained either in a line management, strategic planning or senior Market Research role. Considerable weight will be placed on personal credibility and acceptability in dealing with senior Financial Services professionals and General Management.

Highly developed presentational skills are essential. Probably in your 30's, you will have the energy and innovational ability, not only to promote the Company's existing products, but also to contribute towards product development in this fast moving sector. There is the potential for travel within Europe and knowledge of Financial Services markets there would be an advantage.

In return you will be offered a salary commensurate with your experience and qualifications plus an attractive executive benefits package, including relocation assistance where appropriate.

Please write with full career and personal details to J.D Alexander, ref. JAB/1, stating clearly any companies to whom you would not wish details to be forwarded at this stage.

MSL Advertising

MSL Advertising, Broad Quay House, Broad Quay, Bristol BS1 4DJ.

Hoggett Bowers

Executive Search and Selection Consultants

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A MEMBER OF BLUE ARROW PLC

Finance Director

Marketing Services
Manchester Based, c £28,000, Car, Benefits

Success in this fast moving, dynamic organisation has been achieved through aggressive business development and by the application of efficient financial controls. The company is one of the largest independent organisations in its business sector and continued growth will be organic and by acquisition in the UK and overseas. Reporting to the Managing Director, responsibilities will include playing a fundamental role in growing the business, the exercise of strong financial controls, and a number of contract, legal and administrative duties. Candidates, aged 27-35, will be qualified accountants and must have a high degree of commercial awareness, good inter-personal skills and be competent financial practitioners. Experience in a service-related industry is preferable and involvement in acquisitions a considerable advantage. This is an opportunity to make a real contribution to continued success in an intellectually stimulating environment.
C. Vaughan, **Hoggett Bowers plc**, *St. James's Court, 30 Brown Street,* **MANCHESTER,** *M2 2JF,* **061-832 3500.** *Ref: M18029/FT.*

Financial Controller

With Strengths In Contract Costing
Berkshire, To £27,500, Car, Benefits

This major British plc, renowned for its international operations in electrical and mechanical engineering, is committed to developing a substantial systems business. Restructuring has created a £7m turnover company, which will be expanded to around £50m in five years through organic growth and acquisition. The core activity is sales, installation and service of energy management systems for new and refurbished buildings. Reporting to the Managing Director, you will provide financial information and controls which contribute to the successful commercial management of the company and which meet demanding, though not complex, group requirements. In the early stages the role will be particularly broad, encompassing a wide range of financial and administrative issues. As the business grows, the focus will be increasingly on managing the financial aspects of large contracts to ensure profitability is optimised. A qualified accountant aged 28-40, you must have a thorough understanding of contract costing, gained in a substantial contracting or systems company. You should be totally committed to full involvement in a rapidly expanding company and confident of your ability to make a strong contribution. Progression opportunities within the group are excellent.
S.P. Spindler, **Hoggett Bowers plc,** *George V Place, 4 Thames Avenue,* **WINDSOR,** *SL4 1QP,* **0753-850851.** *Ref: W11057/FT.*

Group Accountant

East Midlands, Attractive Salary, Car, Benefits

High standards of quality and customer service have been the keys to success for this established and progressive small full listed plc. Their future development plans include acquisitions, the introduction of new products, and a continuing policy of capital investment. Responsibilities, which will necessitate multi-site involvement, include the consolidation and critical review of management accounting information, budgets and monitoring internal control procedures. Candidates, qualified ACA/ACMA, must demonstrate a sustained track record in the accounts function within a manufacturing or engineering environment. Ideal experience includes the analysis of business performance, formulating budgets, implementing internal controls, and the application of computer systems. Good communication skills and the ability to identify potential problem areas are necessary personal qualities. Age will not be a restricting factor for the right candidate. Relocation as required.
Dr. J.H. Wright, **Hoggett Bowers plc,** *3 Wellington Court, Wellington Street,* **CAMBRIDGE,** *CB1 1HZ,* **0223-324441.** *Ref: F11028/FT.*

These positions are open to male or female candidates. Please telephone for a Personal History Form to the relevant office, quoting the appropriate reference.

SENIOR FINANCIAL ANALYST
£19,000 W. London

leading global Financial Services organisation seeks an ambitious newly qualified/finalist CIMA for career opportunity. Responsibilities include preparing budgets and monthly forecasts for senior management and producing financial presentations on their behalf.
You will need at least 3 years relevant experience and be familiar with LOTUS 1-2-3.
Please contact Sue Turner for further details.

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Tessa Taylor
ext 3351

Deirdre Venables
ext 4177

Paul Maraviglia
ext 4676

Elizabeth Rowan
ext 3456

Financial Controller

Central London to £40,000 + Car

Our client is a major force in retail banking within the United States. The bank has established offices in London, Tokyo, Singapore and Europe, where activity in the world's money and merchant banking markets has become increasingly important.

A vacancy has arisen for the position of financial controller, reporting to the Head of Operations, and in turn supervising a department of eleven staff. The four main areas of responsibility encompass financial control, planning and analysis, regulatory reporting and management accounting.

The role carries responsibility for development of the accounting and reporting systems, and will therefore involve liaison with the Computer department. There is also a high level of communication with head office in the United States.

The successful applicant is likely to be a qualified accountant aged 33-40, with considerable experience in the financial services sector. This individual will be ambitious, self motivated and have well developed interpersonal and leadership skills.

If you match this profile and feel able to meet the challenge offered by this exciting opportunity, please contact Diane Forrester ACA on 01-831 2000 or write to her at 39-41 Parker Street, London WC2B 5LH.

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International Recruitment Consultants
London Bristol Windsor St Albans Leatherhead Birmingham Nottingham Manchester Leeds Newcastle-upon-Tyne Glasgow & Worldwide

Financial Controller

New Opportunity

Hants/Wilts

c £25,000
+ bonus and car

Our client is one of the leading construction groups in the South of England with a turnover of about £50 million. In addition to their major contracting activities, specialising in residential and commercial developments, they also have shopfitting, plant hire and other companies allied to the building industry. Their high reputation in the industry puts them in a strong position to take full advantage of the buoyant property market.

Prospects are therefore very exciting but strong financial management is critical in order to maximise the group's full profit potential.

They are seeking a Qualified Accountant, aged 30–40, with several years broad based experience in a medium sized company. In-depth experience of computer based systems is essential.

A fully competitive salary and attractive range of benefits are offered and there are also excellent prospects of subsidiary company Board appointments within the medium term.

The group headquarters are located in a pleasant rural setting and relocation assistance will be available.

Please send concise details, including current salary and daytime telephone number, quoting reference D2022, to W. S. Gilliland, Executive Selection Division, Grant Thornton Management Consultants Limited, Grant Thornton House, Melton Street, Euston Square, London NW1 2EP.

Grant Thornton
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OFFICIAL SPONSOR OF THE 1988 BRITISH OLYMPIC TEAM

هكذا صدر الأصل

Sunrise publishing venture with heavy investor support

Finance & Administration Director

£40,000 + package. Equity potential.

Our client, the HAMFIELD PUBLISHING GROUP, have signalled the launch of a brand-new colour magazine this autumn. Distributed nationwide with the country's leading regional newspaper titles, this independent publishing venture has received investor funding to the tune of £8m.

To complete the multi-discipline senior management team, they now wish to appoint an accomplished Finance Director to spearhead the rapid establishment of financial systems and procedures, management information disciplines and the development of water-tight credit control functions.

Based in London and reporting directly to the Managing Director, you will be a qualified accountant aged 28-35 able to demonstrate strong technical competency, allied to commercial trading instincts. This demanding start-up situation will appeal strongly to those with entrepreneurial skills who are keen to work alongside experienced production and marketing personnel, in a fast-moving and competitive environment. Previous experience of the publishing/communications industry would be distinctly advantageous.

The package is particularly attractive, with substantial profit participation in the event of post-launch success. Equity is available for the successful candidate. A prestige car and comprehensive benefits package apply.

Written applications, with details of availability for interview in the London area should be forwarded immediately to:
Alan Dickinson, Deputy Managing Director,
Michael Page Partnership, 39-41 Parker Street, London WC2B 5LH.

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THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND & WALES

Technical Consultants
Chartered Accountants

Central London **to £25,000 + car**

Our client, the Technical Directorate of the Institute of Chartered Accountants in England and Wales, is involved in the strategic development of the accounting and auditing standards and guidelines of the future. It also provides an advisory service to its members.

Exceptional opportunities have arisen for several high calibre Chartered Accountants to undertake a project orientated role. Working in conjunction with a variety of consultative committees, you would be involved in:

- Developing accounting standards and recommendations
- Developing auditing standards and guidelines
- Examining new and prospective parliamentary legislation

You will be responsible for drafting the relevant standards and guidelines following meetings and consultations.

Based in the Institute's headquarters in Moorgate, you will join a high calibre team, enjoying a considerable degree of autonomy and responsibility.

In addition you will maintain regular contact with key members of the accountancy profession and senior City figures.

If you are a graduate and are keen to become involved in the technical and policy making aspects of the profession, our client will be happy to give you full details without commitment.

The excellent benefits include flexible working hours and relocation expenses where appropriate.

In the first instance call Juliet Connock on 01-831 2000 or write to her at Michael Page Partnership, 39/41 Parker Street, London WC2B 5LH.

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FKI BABCOCK PLC

Finance Directors

£25,000 – £35,000 Package + Car

Our client, FKI Babcock PLC, is a growth orientated UK based multi-national, generating an annual turnover in excess of £1,000m. Recent acquisition and restructuring has produced a requirement for Finance Directors at a number of autonomous subsidiaries within the Electrical Products Group.

Operating in the electrical and engineering sectors, the Electrical Products Group is well placed to continue its policy of expansion by exploiting its existing markets and further strategic acquisitions.

The subsidiaries turnover range in size from £8 – £35 million and in each case the Finance Director will assume total responsibility for all finance and related functions in a demanding business environment. In particular he/she will be required to adopt a "hands-on" approach to the development and implementation of sophisticated financial and manufacturing control systems, strict cost discipline and cash management as well as providing comprehensive financial information to the management team.

Candidates aged 28-38 should be qualified accountants who can demonstrate a successful track record gained in an engineering based manufacturing business. In addition to strong technical ability, the drive and ambition to succeed in a dynamic fast moving operation is essential. Progression prospects within the group are excellent and relocation facilities are available where appropriate.

Please send your application enclosing a full cv and quoting ref 504 to your nearest Michael Page Partnership office:

North West:
Iain Blair ACMA, Michael Page Partnership, Clarendon House,
81 Mosley Street, Manchester M2 3LQ. Tel: 061-228 0396.

West Midlands:
Tony Hodgins ACA, Michael Page Partnership, Bennetts Court,
6 Bennetts Hill, Birmingham B2 5ST. Tel: 021-228 0396.

East Midlands:
Rod Shaw, Michael Page Partnership, Imperial Building, Victoria Street,
Nottingham NG1 2EX. Tel: (0602) 483480.

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GROUP FINANCIAL CONTROLLER

Central London

FCA's 35 – 40 ***to £40,000 + car + benefits***

Our client, a major international publishing group, is seeking to recruit a Group Financial Controller for their central London head office.

Reporting to the Group Finance Director, the role will cover responsibility for the production of statutory financial accounts, monthly financial and management accounts, budgets, budget/actual variance analysis and remedial action, draft tax planning, computerised financial systems enhancement, systems integration of acquired subsidiaries, financial staff control, recruitment, training and development. Prospects are excellent as the role is seen as a preparation for Board status in due course.

Candidates (male or female) should be at financial controller level in a sizeable manufacturing or service group, have first class staff management and communications skills, have an outgoing personality and be capable of using computer modelling techniques.

Please send a copy of your C.V to **George Ormrod B.A. (Oxon)**, Douglas Llambias Associates Limited at our London office **quoting reference No. 2249.**

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TELEPHONE: 01-836 9501

FINANCIAL CONTROLLER

Property Development Company

c. £25,000 + Car **Cambridge**

A young and expanding public company involved in property development. Company turnover is currently in the region of £5M.

This is a broadly based financial controllership with the emphasis on the provision of meaningful management information, particularly in relation to project costing. You will be directly responsible to the managing director for the financial management and administration of the company, assisted by a small team of staff. You will work closely with the managing director in making key commercial policy decisions and with banks and other financial institutions. Prospects for development with the company are excellent.

The successful candidate will be aged between 25 and 30, a qualified accountant who has experience of managing projects and project financing. A candidate seeking a first move from the accountancy profession to industry would be considered if experience is relevant. A "hands on" management style is required, technical ability, use of micro computers and a capacity to contribute to the direction of the business as a whole.

Please reply in confidence, giving concise career, personal and salary details to:

Malcolm Walton, Cambridge Trust p.l.c., Pound Hill House, Pound Hill Road, Cambridge CB3 0AE.

Cambridge Trust p.l.c

FINANCIAL DIRECTOR

DROITWICH £30,000 + bonus + car etc.

Reddiplex is a specialist plastics manufacturer that successfully markets a product range and supplies general trade requirements. The current turnover rate of £10m. has been growing at over 30%, which is set to continue.

The need for a substantially increased management contribution from the financial/M.I.S. area is recognised by the Directors, who now wish to add to their team a qualified accountant who will participate in their company's growth.

Applicants should have all those attributes which are so adequately and often described in advertisements for director level jobs, but in particular the desire to become part of an enterprising team who are motivated by business success.

Please contact C.D. Dawson, Reddiplex Limited, The Furlong, Droitwich, Worcestershire, WR9 9BG; tel. (0905) 774301

Management Accountant

Attractive negotiable salary

London, West End

The Asea Brown Boveri Group is one of the world's largest electrical and electronic engineering companies. Quality, reliability and a real commitment to customer service are the key elements in our success story.

Information plays a key role in our organisation, enabling management to make well informed decisions. As a result the position of Management Accountant has a visible influence on decision making at senior level.

As the source and focal point for management information, you will report to the Financial Controller and be responsible for the day to day running of the accounts department. Managing a team of nine, you will ensure deadlines are met at all times.

As a qualified Accountant, ACCA or ACA and aged 25+, you will have had experience of running an accounts department in either a sales, service or commercial environment. In addition you will need to be an innovative thinker with a creative approach to solving problems combined with excellent communication and man-management skills. Previous PC accounting experience is essential.

In addition to an excellent salary our comprehensive benefits package includes generous holiday entitlement, contributory pension, life assurance, private medical insurance and free season ticket.

If you are looking for a position with responsibility and challenge, please send a detailed cv in the first instance to: **Ian Butler, Personnel Manager, ABB Industry Ltd, Northern Centre, Manchester International Office Centre, Styal Road, Manchester M22 5WR.**

ABB
ASEA BROWN BOVERI

The Bank of Bermuda Limited

(Incorporated in Bermuda in 1890)

ASSISTANT MANAGER
CORPORATE FINANCE

We are seeking a professional looking for their next career challenge. The challenge is to further develop an extensive reporting system to be used by senior management in corporate decision making. As a result, you will be in the hub of corporate financial activity.

The Bank of Bermuda Limited, Bermuda's largest bank, is a banking, trust and investment management organisation with over $3.5 billion in assets and 1,400 staff in 6 locations worldwide.

This is a highly visible position. You will be managing a group of professionals responsible for developing the Bank's corporate finance function. Emphasis will be on financial aspects of business planning and related financial controls.

This will be a progressive step with growth opportunities for a Chartered Accountant or an MBA with good career progression and five to ten years' relevant experience in corporate finance.

The successful candidate will be able to demonstrate a blend of management, analytical and interpersonal skills. Communication ability must be highly developed as there will be close liaison with other staff administrators and line managers both locally and overseas.

We offer a competitive tax-free salary and benefits package.

Please FAX or mail your resume before Friday 8 July 1988 to Kay Taplin, Personnel Officer, The Bank of Bermuda Limited, Minister House, 12 Arthur Street, London EC4R 9AB, fax 623 1669, or call her on 01-623 5551.

If your spouse will be seeking employment in Bermuda, please include his/her resume.

Interviews will be conducted in Canada and the UK in mid-July.

The Leeds Castle Foundation

a charitable organisation, which owns Leeds Castle, Maidstone, Kent, a premier conference centre and third most visited stately home in England, with supporting service outlets, invites applications for the post of

FINANCIAL CONTROLLER

The successful candidate will be a Chartered Accountant and have at least five years experience at management level, preferably associated with the hotel/leisure/retail sectors. He/she will report to the Managing Director of Leeds Castle, and will have responsibility for the total finance function. The job will be based at Leeds Castle. Experience in computerised accounting is required. Impeccable references are essential.

Remuneration will be based on individual suitability and experience, but will be commensurate with the seniority of the position and not less than £25,000 per annum.

Application, with Curriculum Vitae in strictest confidence, to:

Graham Jackson,
Managing Director,
Leeds Castle Enterprises Ltd,
Leeds Castle, Maidstone, Kent ME17 1PL

LEEDS:CASTLE:MAIDSTONE:KENT

Closing date for receipt of applications 8 July 1988

Project Accountant

London/Essex Border

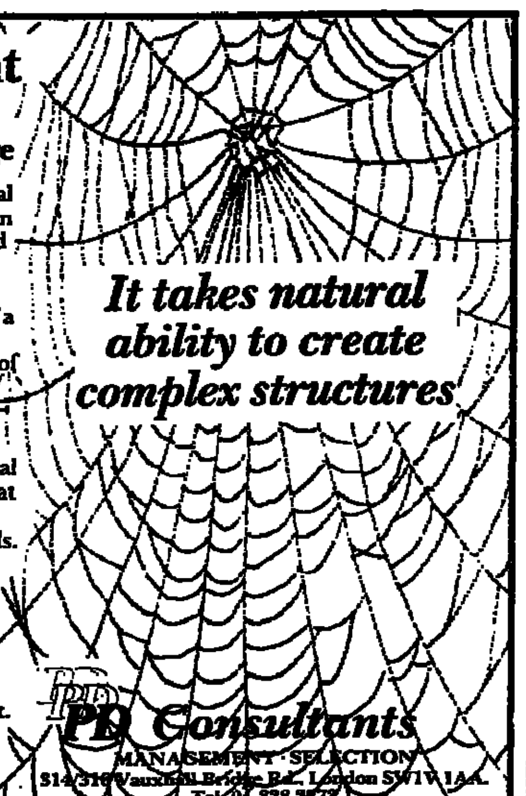
c.£22,500 + Benefits inc. Mortgage

As a leading force within the buoyant financial services arena, this dynamic organisation can demonstrate a superb product range, backed by a highly professional management infrastructure. Their record of growth and diversification demands the appointment of a commercially aware, qualified accountant, with the ability to further enhance standards of efficiency and profitability.

In this varied project-based role, you will review systems and procedures, whilst undertaking profitability studies and financial forecasts. Liaising closely with professionals at all levels, it is essential that you can demonstrate considerable interpersonal skills. Knowledge of computerised accounting systems and awareness of financial markets would be advantageous.

The salary is negotiable and the comprehensive range of benefits includes a mortgage subsidy. Career prospects, both in the company and holding group, are excellent.

Write, enclosing full CV and daytime telephone number, to Patrick Donnelly, quoting reference FT/025.



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ADVERTISING AGENCY

We are a medium sized agency with expertise in Business, Industry and Corporate Communication. Having just been acquired by a major worldwide agency, we have the backing and support for fast growth, including acquisitions of our own, propably funded by our parent company.

We have a young, aggressive, commercially orientated management team and are looking for someone to come in and take over all responsibility for finance, accounts, general corporate growth and the reporting to our parent company from our retiring chairman.

He or she would need to be a professional, experienced, but most of all shewed, enterprising and someone who thrives on the cut and thrust of business, accounts, profitability, financial controls and acquisitions etc.

Impressive prospects for suitably qualified candidate.

Please apply in confidence to:
The Chairman, Box T6937, Financial Times,
10 Cannon Street, London EC4P 4BY

Financial Controller

Hertfordshire

£30,000 + bonus + car

Our client is the UK subsidiary of a major multi-million $ US conglomerate and operates a highly successful operation within the distribution sector. Following recent acquisitions and plans for further expansion there is now a requirement to make this new appointment following internal re-structuring.

The role will report direct to the Chief Financial Officer and assume responsibility for providing full management and financial information to the UK and US management teams. In addition the appointee will be a major participant in the upgrade of computerisation, general administration, planning and commercial decision making to develop the business further.

Candidates should be qualified accountants, aged preferably mid 30's with a mature outlook, and have a good track record to date in a commercial environment. They will be expected to be good communicators with all levels of staff, head up a small team and cope with this fast pace and exciting environment.

Please telephone or write enclosing a full resumé quoting ref: 222 to:

Philip Cartwright FCMA,
97 Jermyn Street,
London SW1Y 6JE
Tel: 01-839 4572

Cartwright Hopkins
FINANCIAL SELECTION AND SEARCH

BUSINESS PLANNING – RETAIL

West London — ACA/ACMA — c£33,000 + Car

Our client, a dynamic and highly regarded leader in the retail sector is continuing its impressive growth record. In this fast moving environment their strategy of establishing competitive advantage results from the enhancement of product ranges combined with targeted store development.

To meet the challenge of continued expansion they have an immediate requirement for a key individual to join their Business Planning Team.

The role will involve interaction with commercial management investigating a wide range of issues including appraisal of new business opportunities, evaluation of merchandise performance and analysis of capital projects.

A commercially minded individual with financial expertise, your success will be dependent on your ability to contribute to a multi-disciplined team. Aged 29-34, you will be able to demonstrate qualities of leadership and determination combined with the ability to deal effectively with senior managers.

In this highly visible role opportunities for advancement into senior general management are excellent.

If you feel you can match the demands of this challenging organisation please contact James Hyde by telephone on 01-437 0464 or write enclosing a detailed CV to the address below.

ROBERT • WALTERS • ASSOCIATES
RECRUITMENT CONSULTANTS
Queens House 1 Leicester Place Leicester Square London WC2H 7BP
Telephone: 01-437 0464

Group finance director

Property development

Derbyshire, c£40,000

The privately owned Viking Property Group was founded in 1970 and has an enviable reputation for the development of first class commercial properties and investments. They are now firmly established in the front rank of UK retail, office and industrial property development companies. The 1980's have seen the establishment of North American ventures and their first European project.

Their own development now demands the appointment of a highly commercial Group Finance Director. A chartered accountant and aged around 40, you will have had wide experience of dealing with banks and city institutions. It will be advantageous to have experience in the property development sector and previous involvement in taking a company to the market. Your strengths must also include the ability to oversee the development of systems which will provide the information to track group performance and facilitate enhanced financial and strategic planning.

The remuneration package has the flexibility to accommodate above average performers. In the first instance please send a full career résumé which includes a daytime telephone number to David Owens, Reference D295.

Coopers & Lybrand Executive Selection

Coopers & Lybrand Executive Selection Limited
22a The Ropewalk
Nottingham NG1 5DT

Finance Director

Singapore
£50,000 + expatriate benefits

This British plc has a flourishing and profitable food business in the Asia-Pacific zone, extending from Malaysia to Australia, with an acquisition programme which will double the 1988 turnover of £20m in the short term. This new appointment will require the FD to concentrate initially on a detailed review of accounting standards and systems throughout the business units, while working closely with the Chief Executive at the operations centre in Singapore. He will have qualified accountants in support at the centre and in the operating companies, and will be responsible for ensuring that they produce relevant management information. Financial planning and controls for the group, as well as relations with statutory authorities and professional advisers, will also be major dimensions of the role, which could lead to membership of the main board. We seek a successful financial manager in the late 30s, preferably a chartered accountant, who has worked at Financial Controller level or above in an international company, with experience in substantial manufacturing units and a period in a corporate head office. Previous residence overseas would be valuable. Benefits will include married accommodation and school fees where appropriate, and annual home leave.

Please send full cv, indicating current salary, in confidence, to Michael Egan, Ref: 2399/MJE/FT.

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Executive Recruitment · Human Resource Consultancy

Hyde Park House, 60a Knightsbridge, London SW1X 7LE.
Tel: 01-235 6060 Telex: 27874

TECHNICAL MANAGER

STREAMLINE AUDIT SYSTEMS IN LINE WITH RAPID GROWTH

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Having increased staff levels by 33% over the past year, we are continuing to recruit a number of top professionals to service this corporate development, one such key appointment is Technical Manager.

An ACA technical specialist, with at least 5 years post qualified experience, gained preferably within a leading partnership, you will enjoy considerable scope in applying your own systems to reviews and updates of audit manuals and programmes.

Incorporating your recommendations into the firm's training programme, you will play an active role in developing a consultancy service through a training consortium of 20 member firms.

Conducting research on specialist technical areas such as statistical sampling, you will identify those areas in need of rationalisation and provide advice on the implications of new SSAP's.

As such, you will play a significant role in our continued success and enjoy a salary of c.£28,000.

Please write with a full CV to: Kim Sands, Personnel Manager, Levy Gee, 100 Chalk Farm Road, London NW1 8EH.

Levy Gee

Commercial Accountants

West London — Substantial Package

Our client is a leader in the field of prestige, high value cosmetics and toiletries. It is a private company with extensive European and US operations. The company's UK headquarters with a staff of 300 are based in West London.

Financial Accountant

An outstanding opportunity for a young, commercially-minded accountant. Supervising a staff of 4, main duties will include financial reporting, business plans, liaison at all levels on commercial decision-making, as well as statutory accounts and dealing with corporate taxation matters. An initial area of activity will be participating in the upgrading of the systems in operation. This would represent an ideal opportunity for a newly qualified ACA/CACA with commercial flair.

Management Accountant

This is a challenging and varied role. Main areas of responsibility include capital expenditure appraisal, production efficiency, and the implementation of an improved integrated costing system. Directly responsible for a staff of 3, the post involves liaison at all levels from production line to senior management. The ideal candidate will be a recently qualified CIMA with excellent interpersonal skills and the ability to tackle practical problems.

The package for both these roles includes a competitive salary and extensive benefits.

To obtain further information please send a CV to Elizabeth Lang, or telephone her on 01-353 1244.
ASA International Ltd., Ludgate House, 107-111 Fleet Street, London EC4A 2AB.

ASA International

Financial Controller

A financial controller is needed for an international London based art gallery. The ideal applicant will have extensive commercial experience and is likely to be a chartered accountant able to work flexibly and efficently within a wide range of parameters combining an acute awareness of business trends at home and abroad with the ability to interact with a wide variety of people. As an inspiration team leader he or she would be able to take a shirt sleeves approach to financial and management information. Success in the position would inevitably lead to progression within the company.

Salary negotiable.
Applicants should contact
Miss Labank or Miss Kosinsky
or 9 Dering Street,
London W1

Tel: 01-499 4100

ASSISTANT TO FINANCIAL DIRECTOR

Cheltenham

To £22k Plus Car

Our clients are a privately-owned group of companies active in house building and property development. They are rapidly expanding through business growth and diversification. Turnover is approaching £30M and profits are at a record level.

Reporting to the Financial Director, there will be frequent contact with the proprietors of the business. Responsibilities will include budgeting, forecasting and production of management accounts in addition to systems review and ad hoc projects as required.

This is an exciting role for an analytically-minded accountant with an affinity for micro computer systems who is commercially aware and possesses good communication skills. Candidates should preferably be qualified accountants with a minimum of one year's management accounting experience in housebuilding, property development or a related industry.

The benefit package includes an expensed company car and substantial assistance with relocation to this attractive part of the country.

Please apply in writing or by telephone (quoting reference F7230) initially to:

Suzanne Spatcher
Clark Whitehill Consultants Limited
25 New Street Square, London EC4A 3LN.
Telephone 01-353 1577.

Clark Whitehill Consultants
Executive Selection

SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Thursday June 30 1988

General Motors top management in big shake-up

BY ANATOLE KALETSKY IN NEW YORK

GENERAL MOTORS, the leading US automotive group, has announced a series of senior management changes which seem to set the framework for an eventual competition among the company's top executives for the chairmanship. Mr Roger Smith, the current chairman is due to retire in 1990.

The new appointments also confirm a return to GM's traditional system of promoting senior executives along a well-defined management hierarchy, after a period when a small number of prominent outsiders appeared to be gaining influence.

Four top executives were particularly favoured in Tuesday's appointments. Mr Alan Smith, executive vice-president (EVP) for finance, was named EVP in charge of operating and public affairs staffs. Mr Robert O'Connell, vice president for finance, was promoted to EVP for finance. Mr John Smith, president of GM Europe, was appointed EVP in charge of foreign operations and Mr William Hoglund, head of the Buick-Oldsmobile-Cadillac group, was made EVP in charge of a new power products and defence group.

Mr Alan Smith, Mr John Smith, Mr Hoglund and Mr Robert Stempel, GM's president, are generally considered to be the leading contenders for Mr Roger Smith's top job as chairman. None of the Smiths are related.

The appointments follow the resignation on Monday of Mr Elmer Johnson, the only top-level GM executive to have been drawn from outside the ranks of the company's own managers. Mr Johnson joined GM in 1983 after a long career as a corporate lawyer in Chicago. He was recruited by Mr Roger Smith with the express purpose of adding an "outsiders' view" into GM's highly structured managerial hierarchy.

Mr Johnson resigned on Monday as EVP for operating and public affairs staffs, after letting it be known through friends that he had found it hard, as an outsider, to work within the GM system.

Sharp recovery at Opel, Page 18

Ambrands sued over junk bond plan

BY JAMES BUCHAN IN NEW YORK

FOUR BIG Wall Street investors in junk bonds have sued American Brands, the tobacco, spirits and financial services group, to try to prevent it transferring $1.5bn in bonds to a less creditworthy company.

The suit, which signals a growing activism among big holders of these low-grade corporate bonds, asks a New York court to block American Brands' planned sale of part of its E-II Holdings business – and with it $1.5bn in junk bonds – to a company owned by Mr Meshulam Riklis, the entrepreneur.

The bonds were raised on behalf of E-II by Drexel Burnham Lambert, the powerful Wall Street firm best known for its hold of the junk bond market under Mr Michael Milken, its master financier. The lawsuit marks signs of dissension amid the close-knit circle of buyers of Mr Milken's issues.

Among the four plaintiffs, which say they own about a third of the E-II bonds, is Columbia Savings & Loan, a Beverly Hills thrift institution with large holdings of junk bonds and close relations with Mr Milken. The other three are Forstmann Leff, the New York fund manager, Prudential Insurance and CNA Insurance.

The four institutions say the proposed transfer has already wiped $62m off their holdings. They claim that American Brands misled bondholders in January by saying they would operate E-II as a subsidiary. American Brands retorts that it never promised to guarantee the bonds.

The bonds were issued by E-II to finance a takeover attempt on American Brands itself last winter. American Brands responded by taking over E-II, and the bondholders hoped that the conglomerate's higher credit rating would lead to a rise in the bonds' prices. They rejected an American Brands offer to buy out the bonds above par.

But on June 13, American Brands announced it was selling a group of E-II businesses and the subordinated debt to an affiliate of Mr Riklis, who is also an associate of Mr Milken. Prices of the bonds have declined 15 per cent, the suit says.

Separately, a group of institutions, including Prudential and such big investors as Metropolitan Life, is planning to form a bondholders' association to protect holders' rights in the event of takeovers, reorganisations and bankruptcies.

Dingman acquires stake in Henley unit

BY RODERICK ORAM IN NEW YORK

MR MICHAEL DINGMAN, chairman of Henley Group, the acquisitive California holding company, has taken a big step towards gaining personal control of one of its subsidiaries in a deal which might raise questions from the parent company's shareholders.

He has paid $103.9m for a 17.2 per cent stake in Henley Manufacturing, an industrial and special chemicals and car parts company spun off by Henley Group late this year. The price was $55 a share compared with a closing price of Henley Manufacturing on Tuesday of $43.

The sellers were three companies – Saxonglen and Three Seas, both of Curacao, and Bassak of Bermuda – owned by Mr Toufic Aboukhater and Mr Said Khoury, Lebanese businessmen based respectively in Monte Carlo and Kuwait.

The two had built up their stake from a small initial holding in Henley Manufacturing which they received when 45 per cent of its shares were spun off to Henley Group shareholders as a special dividend last December.

The distribution was part of continuing efforts to improve shareholder values and raise money for Henley Group's acquisitions. Earlier this year it failed to take over Santa Fe Southern Pacific, the US railroad and natural resources group.

The share purchase increased Mr Dingman's stake in Henley Manufacturing to 20.9 per cent. "I shall actively explore the feasibility of acquiring the entire equity interest in the company," he said.

He is discussing with Henley Group the exercise of an option the parent company granted Henley Manufacturing at the time of the spin off. The subsidiary has the right to buy for $113.6m the 51.8 per cent of its equity held by the parent. If bought, the shares would be retired by Henley Manufacturing, boosting Mr Dingman's personal stake in it to 43.5 per cent.

The option values Henley hares Manufacturing's shares at just under $20 each compared with the $55 Mr Dingman paid for his latest tranche. The shares rose $9¼ to $52¼ in early trading yesterday. Mr Norman Ritter, a spokesman for both Henley Group and Henley Manufacturing, said the option was fairly priced. "I think it is important to look at the totality of the investment."

He said the buyback would boost the price of Henley Manufacturing shares. Since most investors hold shares in both the parent and the subsidiary, they would gain on the latter what they might lose from the former's decision to sell at below market price.

Motown Records sold to bankers group for $61m

BY OUR NEW YORK STAFF

MOTOWN RECORDS, the label that brought black soul music into the main stream of American culture, has been sold for $61m to a group of white Boston investment bankers and MCA.

The label, which created legions of black recording stars and was once the largest black-owned business in the US, will be owned 80 per cent by Boston Ventures, an ambitious young investment firm specialising in management buy-outs in the media business.

The remainder will be held by MCA, the film and entertainment conglomerate which has revenues from the record business of $480m.

The deal, which was completed on Tuesday, follows long talks with Mr Berry Gordy, the Detroit carworker who founded Motown with just $800 in 1959.

At its heyday in the late 1960s, artists such as Diana Ross and the Supremes, Marvin Gaye and the Four Tops were belting out hits faster than any label before or since.

But after 1971, when Mr Gordy moved the business from the Motor City to Los Angeles to concentrate on film, the label declined. Annual revenues are thought to be less than $50m.

The key to the deal is a huge catalogue of music from Motown's glory days, thought to number more than 15,000 master recordings.

Although Mr Gordy has exploited the catalogue on compact disc, Boston Ventures and MCA believe this gold mine can be worked over more thoroughly.

Mr Gordy is retaining Motown's film and music publishing divisions.

MCA and the Boston firm, best known for backing the successful $1.1bn buy-out of Metromedia in 1984, are seeking a black chief executive to help attract new recording talent.

Motown's main artists – Stevie Wonder, Smokey Robinson and Lionel Ritchie – are expected to stay with the label.

Eaton heads GM Europe

BY KEVIN DONE IN LONDON

GENERAL MOTORS has appointed Mr Robert Eaton president of General Motors Europe, its West European passenger car operations, as part of a series of top management changes in the corporation.

Mr Eaton, who played an important role in GM's purchase of Group Lotus in the UK two years ago, is an engineer by background and has largely filled engineering functions during his career with GM.

Currently a vice-president and group executive of GM's Technical Staffs in Detroit, he will replace Mr John Smith, who has been president of GM Europe for little more than a year. The appointment takes effect from tomorrow.

Mr Smith joined GM Europe in February 1986 when the organisation was established in Zurich to co-ordinate all GM's car operations in Europe, including its Adam Opel subsidiary in West Germany and Vauxhall in the UK.

GM Europe staged a dramatic recovery last year and accounted for 35 per cent of GM's profits on only 14.5 per cent of group turnover.

Offer 'likely for Pullman'

BY OUR FINANCIAL STAFF

THE PULLMAN Company, a US manufacturer of truck trailers, aircraft seats and industrial equipment, said a group led by Mr Thomas Begel, chairman and chief executive, is considering making a proposal later this week to acquire the company for an expected $7.50 a share or a total of $308m.

The news triggered a rise in the New Jersey-based concern's stock, which rose $1¾ to $7⅞ by lunchtime in heavy trading.

Analysts said investors apparently expected a higher bid to emerge. "I think $7.50 will not be the final price," said Mr Richard Rieger, of Ladenburg Thalmann. Pullman is mainly involved in producing transportation equipment and automotive components. In the year ended September 30, its net income was $14.4m on sales of $613m.

Quaker State bid dropped

BY OUR FINANCIAL STAFF

SHARES IN Quaker State, a leading US marketer of motor oil, dropped in early trading yesterday following the withdrawal of a $675m or $26.50 per share takeover bid by Ardshiel, a little-known New York-based investment firm.

Ardshiel indicated it was withdrawing its offer because of Quaker State's policy of silence concerning Ardshiel's proposal to acquire the company on a negotiated basis.

Ardshiel said it reserved the right to buy or sell, in open market or private transactions, Quaker State stock and to make another proposal to acquire the company at a future date.

The bid was announced in in April, with Ardshiel leading an investor group.

At Tuesday's close, Quaker State's shares closed at $23⅞.

UK pensions fund code

BY ERIC SHORT, PENSIONS CORRESPONDENT, IN LONDON

INVESTMENT by UK company pension schemes in their parent companies in any form is unhelpful and undesirable, according to a report published today by the Investment Committee of the National Association of Pension Funds.

The report puts forward a code of best practice for trustees of pension funds, advising that such funds make no further self–investment and should dispose of any existing investment in the parent company.

Company pension schemes are established under trust, one aim being to separate the financial operations of the pension scheme from those of the parent. This in turn implies that the pension scheme would not hold any of its assets in the parent company – holdings in the parent company equity, no loans to the company, no owning of property rented to the parent company.

However, avoiding any self-investment does mean foregoing certain investment opportunities, particularly if part of the investment strategy is for some or all of the fund's UK equity holdings should follow or "track" the FTActuaries All-Share index.

INTERNATIONAL COMPANIES AND FINANCE

Deutschebank to retain Fiat stake

BY ALAN FRIEDMAN IN TURIN

DEUTSCHEBANK has decided to become a permanent shareholder in Fiat, the Italian motor group, by treating as a "permanent participation" the 2.5 per cent equity stake it has had on its books since the 1986 international placing of Libya's shareholding in Fiat.

Mr Gianni Agnelli, the Fiat chairman, said in Turin yesterday that he had received a letter from Mr Alfred Herrhausen, the Deutschebank chairman, informing him of the decision. Deutschebank, which now becomes the fourth biggest Fiat shareholder, after two Agnelli family companies and Mediobanca, the merchant bank, organised and led the attempt in 1986 to place $2.1bn of Fiat shares that were previously owned by the Libyan Arab Foreign Investment Company (Lafico).

The Deutschebank placing, the largest Euro-equity sale ever launched, came under heavy criticism by market makers after the Fiat share price fell sharply and large amounts of Fiat stock remained unplaced.

Mr Agnelli first disclosed last September that Deutschebank had about DM1bn ($550m) of Fiat stock on its books. He said at the time that he thought the German bank's decision on whether to maintain its stake would depend on market conditions and tax considerations.

Yesterday, Mr Agnelli made public part of Mr Herrhausen's letter in which Deutschebank explained the decision to become a permanent shareholder "in the light of the European development and the political objective of creating a single internal market by 1992."

Deutschebank also said the decision would give the bank's industrial tradition a European dimension and would represent "a convincing acknowlegement of our commitment to Italy, expressed two years ago when we acquired Banca d'America d'Italia in Milan."

Since the Fiat Euro placing, Deutschebank has suffered a book loss of 40 per cent on its purchase price. The 2.5 per cent shareholding in Fiat now has a stock market value of $331m.

In other developments, Mr Agnelli yesterday announced that Viscount Etienne Davignon, the director of Société Générale de Belgique, had been named a new Fiat director along with Mr Mario Monti, a prominent Italian economist.

Gianni Agnelli: backs creation of European Central Bank

The Fiat chairman, in a wide ranging press conference, also disclosed the following:

Fiat is discussisng with the state owned Finmeccanica group a possible restructuring of the air craft engine and railway equipment sectors that could result in a swap of assets.

Fiat's Telettra telecommunications subsidiary has had "contacts" with the Matra group of France that could result in a joint venture.

Mr Agnelli also said he was in favour of the creation of a European Central Bank and criticised implicitly the position of Mrs Margaret Thatcher, who has opposed the project. Commenting on this week's European Summit in Hannover, the Fiat chairman said: "I have the impression that apart from the isolationist approach of Great Britain, which is an island, there was a general consensus."

Mr Agnelli also criticised the "inefficiency" of Italy's public administration and said he was worried about the rising cost of money and inflationary pressures.

Fiat said its group turnover had risen by 15 per cent in the first four months of 1988 to L14,500bn ($10.8bn) with an operating margin of about 10 per cent. For the whole of 1988 Fiat expects total turnover of around L43,000bn, against last year's L38,435bn.

Massa to raise DM250m via rights

By Haig Simonian in Frankfurt

MASSA, THE West German discount stores chain, which is now closely linked to the Asko stores group, plans a one-for-four rights issue of 750,000 new shares. At yesterday's closing price of DM335.50, the issue would raise just over DM250m ($139m).

No date has been given for the transaction, which is being led by Deutsche Bank. However, further information may become available at a Massa news conference on July 6. Meanwhile, Massa said it would pay an unchanged dividend for 1987 of DM10 for its ordinary shares and DM11 for its preference shares.

The new shares will be fully valid for this year's dividend, and Asko, which has now raised its stake in Massa to 49.9 per cent, intends to take up its full allotment, according to the company.

Massa's sales rose by 11 per cent to DM3.3bn last year, and the company says business has continued to develop well so far in 1988. Profits should rise further, thanks to the takeover of 14 Basar discount stores, with annual turnover of DM650m. Earnings per share in 1987 rose to DM15.45 according to the DVFA method, against DM14.70 last year, it said.

● Hertie, one of Germany's leading department store chains, made group net profits of DM4.2m last year after unbroken accumulated losses of DM653m since 1977. The company expects to be modestly profitable again this year.

Hertie's sales fell by 1 per cent to DM5.6bn in 1987 but turnover for the first half of this year improved by 0.6 per cent with sales at Hertie's four specialist retailing chains, which concentrate on electronics, entertainment and clothing, increasing by 28 per cent to DM275m.

Euroc to sell Dynapac unit to Compenta

By Sara Webb in Stockholm

EUROC, THE Swedish building materials and trading group, has agreed to sell Dynapac, its building equipment business, for SKr500m ($80.4m) to Componenta, a Swedish heavy engineering group.

Euroc said the disposal was in line with its decision to concentrate on the building materials business, both at home and abroad.

In view of the building boom in Sweden and the spate of acquisitions it has made recently, Euroc expects 1988 profits (after financial items) to be "considerably better" than last year's figure of SKr467m. Sales in 1987 totalled SKr6.79bn.

Componenta plans to raise SKr300m through the issue of new shares and debentures to cover the acquisition cost.

Mr Bjarne Holmqvist, managing director of Componenta, said that Dynapac's products would complement the company's existing range of earth-moving equipment.

Sharp recovery at Opel

BY ANDREW FISHER IN FRANKFURT

ADAM OPEL, the West German subsidiary of General Motors of the US, turned in a sharply-improved result last year, with net profits of DM479m ($266m) after a loss of DM142m in 1986, and expects this year's figure to be at least as high.

Mr Horst Herke, the chairman, said the sharp turnround stemmed from higher domestic sales, the benefits of the heavy investment spending, and new models like the up-market Omega and Senator. Turnover was 16 per cent higher at DM17.2bn. The 1988 result would be "no less positive."

However, in a press conference which coincided with a demonstration by several thousand workers outside the Opel headquarters in Rüsselsheim near Frankfurt – production was stopped for an hour – he also stressed the need to cut costs and work more efficiently.

Drawing a comparison with GM plants in Spain and Belgium, where more flexible labour agreements had been agreed, he said these could not be ignored in the three German plants, employing some 53,000 people. Like other German car companies, Opel has invested large sums to keep down production costs and develop new models, and is investigating how to operate its plants more productively.

Opel hoped to save around DM1bn on costs up to the end of 1991. Echoing recent statements of other German motor company chairmen, Mr Herke said Germany had the highest labour costs, the shortest working times, the highest corporate taxes, and the highest energy costs among competing countries. But he added that no-one need worry about losing their job.

Speaking outside the press conference, Mr Richard Heller, head of the Opel works council, said workers were concerned about future cuts in the labour force through possible shifts of component and full car output abroad. This would be the "bleeding to death" of Opel's oldest plant in Germany.

However, Mr Walter Schlotfeldt, the personnel director, said only that cost studies had identified a possible 2,700 jobs which could be saved by natural wastage, including 1,400 at Rüsselsheim where some 30,000 people are employed. He declined to comment on estimates of as many as 5,000 job reductions. Mr Heller expressed the fear that up to 9,000 jobs could go through non-replacement of those leaving.

Mr Schlotfeldt had to leave the press conference after demands from the workforce to see the board. To an initial chorus of boos, he said no decisions about future jobs had yet been taken, adding that the management would anyway meet with the works council next Tuesday.

Mr Heller said Opel's good results last year should produce a more optimistic approach. Mr Ferdinand Schwenger, the finance director, however, said Opel's profit goals had not yet been achieved. Because of past losses carried forward, Opel paid no profits tax in 1987. If it had paid tax, and a dividend to GM, which has not received a payment from Opel since 1979, profits would have been DM212m, a return on turnover of only 1.2 per cent.

Torras Hostench to issue new bonds

TORRAS HOSTENCH, the Spanish paper group controlled by the Kuwait Investment Office, is to issue up to Pta50bn ($417m) in new bonds and carry out a share split over the next three years. The company also announced 1987 profits had risen strongly, moving up to Pta14.16m pre-tax from Pta9.54m a year ago.

INTL. COMPANIES AND FINANCE

RESPONSE TO HAY DAVISON PROPOSALS

HKSE acts to reshape committee

BY DAVID DODWELL IN HONG KONG

HONG KONG'S stock exchange committee – which was the butt of blunt criticism in the recently published review of the local securities industry led by Mr Ian Hay Davison – yesterday moved to pre-empt government-directed reform by announcing plans to recommend a widening of the committee's make-up.

The plans, which will be put to an extraordinary meeting of stock exchange members on July 20, represent a substantial shift from initial stiff resistance to proposals in the Hay Davison report that seats on the committee should be given to corporate member firms as well as to people outside the industry.

Until now the committee has been made up of individual broker members of the exchange.

The Hay Davison report complained that the stock exchange committee had acted as "an inside group that treated the exchange as a private club," and recommended these changes as a crucial first step to making the exchange more accountable to the interests of investors.

Voluntary action by the exchange authorities is intended to repair the battered authority of the governing body and protect the principle of self-regulation that would be threatened if the Government forced reform by legislative means.

Mr Robert Fell, who after the October crash was drafted in as the exchange's chief executive, said yesterday: "If we don't get a favourable result (from the July 20 meeting), it will be a very black day for the stock exchange." The recommendation would require support from 75 per cent of members present and voting at the EGM.

He added: "It is quite clear that the Government will bring in legislation if we do not move ourselves. Our seizing the initiative now is the best indication that we intend to take Davison at his word. He said self-regulation should continue in Hong Kong, and we intend to demonstrate that we can do this effectively.

"We resent and reject the suggestion that the stock exchange cannot get ahead with things on its own."

In a letter to stock exchange members, Mr Robert Yue, the exchange chairman, argued: "We wish to maintain the authority of the exchange. To do this we must show to government and to the investing public that the exchange does not need government action in the carrying out of any necessary changes. We must act quickly and we must act decisively."

He added that early reform would place the exchange's ruling body in a stronger position to influence major reforms expected later this year in the Securities Commission that currently acts as government watchdog over the industry.

The Hong Kong Government yesterday welcomed the exchange's "voluntary efforts" to reconstitute the committee. Mr David Nendick, acting Financial Secretary, said that if the Government had to force change by legal means, a new exchange committee would not be in place "until at least the end of the year." Voluntary action would make it possible for a new ruling body to be operative by October, he said.

Surge at Japanese drug groups

SHIONOGI and Tanabe Seiyaku, two Japanese pharmaceuticals companies, yesterday produced solid gains in consolidated net earnings, despite the effects of official medicine price cuts and what both called stiffer competition in the industry, AP-DJ reports from Tokyo.

Shionogi said group net earnings rose 26.9 per cent in the year to March to Y11.77bn ($90.5m) on sales up 4.8 per cent to Y276.5bn. Net earnings per share came to Y33.78, up from Y27.81.

Tanabe Seiyaku said consolidated net earnings in the 11 months which ended in March were Y8.64bn against Y5.82bn in the previous full year. Tanabe changed its year-end to March 31 from April 30.

Per share net earnings came to Y36.51, compared with Y27. During the abbreviated fiscal year, Tanabe Seiyaku's sales totalled Y197.4bn, well above the Y188.7bn during the full 12 months before.

Shionogi cited the large number of new medicines introduced during its latest fiscal year and "the spread of medical cost-cutting policies of the past few years" as causing increased competition among pharmaceutical makers, but noted that demand was helped by the ageing of the Japanese population.

It forecast that net earnings would rise to around Y12bn in the current year, on sales of about Y300bn.

Tanabe Seiyaku also cited a flood of new medicines as squeezing sales during the latest reporting period. The company noted pressure on revenues from the medicine price cuts carried out by the Japanese Health and Welfare Ministry during the period.

The company said revenues were helped by brisk sales of its newly introduced Hexabrix, used in treating afflictions of blood vessel tissues.

Profits were helped by lower costs, because of concentrating on the company's mainline products and increases in productivity. Materials costs were also lower under the influence of the stronger yen, the company said.

Tanabe Seiyaku said it anticipates that net earnigns would rise to around Y10bn in the current year and sales to Y227bn.

● Meiji Seika, Japan's leading confectionery maker – which makes about half its earnings from pharmaceuticals – lifted group net profits to Y3.06bn in its March year from Y2.77bn. Sales were down, however, at Y286.4bn, against Y295.8bn. Net earnings per share were Y7.86 compared with Y7.14.

Sansui expects improvement after fourth loss

By Ian Rodger in Tokyo

SANSUI, the Japanese audio group, suffered a pre-tax loss of Y2.4bn ($18.4m) in the six months to April because of a 23 per cent fall in sales to Y13.7bn.

This is the fourth year of losses for the group, but the directors expect revenue to rise sharply in the second half and losses to drop, in part due to plant disposals and other special items.

They forecast sales of Y33bn for the year, up 4.2 per cent, and pre-tax losses at Y3.8bn, against last year's Y5.3bn.

Bond Media to sue over Fairfax deal

BOND MEDIA, a quoted offshoot of Mr Alan Bond's Bond Corporation Holdings, said it would take immediate legal action to recover A$100m (US$80.6m) it says is owed by Tryart, the vehicle for Mr Warwick Fairfax's A$2.55bn takeover of the John Fairfax media group, Reuter reports from Perth.

The sum was orginally payable to Tryart's adviser for the bid, Mr Laurie Connell's finance company, Rothwells, Bond Media said. But it was now payable to Bond Media after Rothwells assigned the debt as part security for a loan from Bond Media, the company added.

A senior Fairfax official said Bond had a perfect right to take legal action and that Fairfax, now owned by Tryart, would hand the case on to its lawyers.

Mr Chris Anderson, editorial director, said: "Our position is that the payment was regarded as a success payment and in our view, the takeover was not a success."

Tryart incurred heavy debts and made divestments after completing the takeover at pre-October crash prices.

Ricoh earnings 55% ahead

RICOH, a Japanese maker of copiers and other business machines, lifted consolidated net earnings in the year to March by 55.4 per cent to a record Y17.02bn ($128.3m) from Y10.95bn, AP-DJ reports from Tokyo.

Sales were Y674.2bn against Y592.4bn, with overseas sales ahead 25.9 per cent to Y255.4bn after a strengthening of production in the US and Europe. Per share net earnings climbed to Y29.26 from Y24.20.

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

Dominique Jackson on recent retreats from London futures trading

Why Exco pulled out of Liffe

THE NEWS that Exco Futures was beating a hasty retreat from the trading floor of the London International Financial Futures Exchange, the second broker to do so within a month, has thrown into relief some of the problems faced by Liffe in adjusting to a new and markedly different phase of development following half a decade of break-neck growth.

The departure of Exco, part of the financial services group, British & Commonwealth, follows hard on the heels of the withdrawal from Liffe of the futures division of Elders, Australian conglomerate. Both firms said that intensifying competition and a combination of high overheads and relatively low commission rates had made it impossible for them to maintain viable operations.

Yet ironically, the pull-outs come at a time when trading volumes on Liffe are more buoyant than at any time since a freak record month last October. Initial indications for June show an average daily volume of around 68,000 contracts traded, set to be the second busiest month in the exchange's six-year history. Trading conditions on the exchange are also set to alter dramatically with an imminent rights issue of new seats which the Liffe board hopes will redress problems of limited trading capacity and liquidity which have hampered the continued development of the exchange.

Liffe officials said they regretted the withdrawals, particularly of Exco, which has been working on Liffe since the 1982 start up. However, they pointed out that half a dozen firms had actually joined Liffe so far this year, among them a Japanese bank, a Japanese securities house, a Dutch clearing organisation and a US investment house.

Exco Futures will now be wound down, although it is envisaged that most of its trading team will find positions with other firms operating on the floor. Mr Richard Worthington, director of Exco International, said the company felt there was insufficient volume on Liffe for the number of players and consequently of commissions available. This view was echoed by Elders officials.

Fellow futures members said that despite long experience on Liffe, Exco had failed to draw a distinct enough line between its futures activities and its core money broking business.

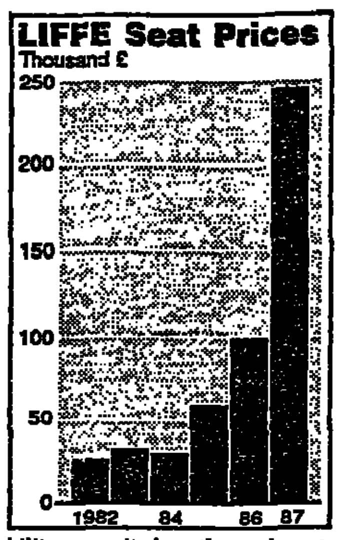
"Surveying the successes and failures on Liffe over the last few years, it is surprisingly clear that commodity brokers, used to relatively low margins, have always done well, whereas the firms with a financial base, used to much fatter commissions in interbank business or stockbroking, have had problems adjusting to the futures markets," commented one senior market figure.

Elders' eventual withdrawal follows a recent decision to bring the London futures operations under the aegis of the New York-based futures division of the diversified Australian conglomerate.

Elders will continue to use the London exchange but will conduct its futures business through intermediaries. Although insufficient critical mass to ensure viability was cited as the main reason for the departure from the Liffe floor, Elders officials also said that a prospective fall in the value of seats on the exchange had also been a factor in the decision.

"We decided that the possibility of a change in value of seats on Liffe was more on the down side than on the up," said a senior Elders official.

Prices for seats on Liffe which entitle holders to retain one trader in the pit have escalated since futures trading first started in 1982 when the asking price was £20,000. The most recent seats changed hands at prices between £130,000 and £170,000 after reaching a peak around last October's crash of around £250,000.



With the intention of providing a cheaper way into the market and to spread daily trade more evenly — UK government gilt futures still account for the bulk of contracts traded — the Liffe board proposed a rights issue which would entitle holders to have an extra trader in any of the less active or newly established contracts. Trading in the most recently introduced contract on Japanese government bonds has yet to take off convincingly and Liffe is determined to safeguard liquidity for the West German government bond contract which starts trading in September.

The exchange came in for some criticism for dragging its feet over the proposal when the issue was held up for several months by protracted tussles with the UK Inland Revenue over the corporate restructuring which a rights issue necessitated for a limited liability company without issued share capital such as Liffe. However, details have now been agreed and the prospectus is due to be published next week.

The prospective expansion in the number of seats available seems set to bring asking prices down from current astronomic levels, a mark down which has clearly irritated some of the exchange's current members but others seem resigned to the fact that controlled expansion is in the longer term interests of the market for futures in London.

"Liffe has always been an open market and in order for an open market to flourish, there has to be equal facility of access and adequate liquidity, not just in one or two contracts, but across the board," said one senior official at a major futures brokerage house.

Dollar gains keep retail investors pinned to sidelines

BY DOMINIQUE JACKSON

MOST SECTORS of the Eurobond market traded quietly within narrow ranges yesterday as retail investors stuck to the sidelines, closely watching the foreign exchanges as the dollar resumed its recent rally which was only briefly interrupted on Tuesday by concerted central bank intervention.

New issue activity was at a bare minimum.

The dollar's firmer tone lent support to the US Treasury and Eurodollar bond markets although extremely low levels of activity limited rises. Trading was dominated largely by professionals with no significant retail buying detected. The market shrugged off a 0.1 per cent rise in US May leading indicators which was in line with market expectations.

Other sectors of the market were subdued by expectations that a hike in interest rates is imminent. UK government gilts, and Eurosterling bonds in their wake, drifted slightly easier, finishing an average of ⅛ point down on the day. There was only limited, largely professional, activity as the market awaited a further ½ per cent rise in base lending rates. A ½ point rise in rates to 9½ per cent on Tuesday was deemed insufficient by the market and dealers said a further increase by the Bank of England would be a correction as rates of 10 per cent were already largely discounted by the sterling bond markets.

In West Germany, turnover was low ahead of today's Bundesbank council meeting with the market still divided as to whether or not the Bundesbank would raise the discount rate, currently at 2½ per cent. Retail investors were sidelined ahead of the possible rate rise and, while the dollar's rally prompted a softer tone, short covering supported prices. There was little change registered in prices on the day.

In the Netherlands, the Finance Ministry's decision to launch a new 6¼ per cent 10 year state loan, despite far from buoyant market conditions was seen by many dealers as a sign that the Dutch authorities are moving to borrow before interest rates do rise.

In Switzerland, business was restricted to a minimum with attention focussed on the possibility of a discount rate hike in neighbouring West Germany. Several banks followed the Zurich cantonal banks in a move to increase the cash bond rates on

INTERNATIONAL BONDS

three and four year issues by ¼ per cent to 3½. Subscriptions closed on a recent SFr200m issue for Thailand which was bid at a discount of 2% in the grey market.

In the primary market, Nomura International led an unusually large $600m equity warrant deal for Nippon Steel. The coupon on the four year issue is indicated at 3½ per cent and it was well bid at a premium of 3½ per cent compared to its par issue price.

NHK Spring also came to the sector with a $100m five year issue carrying an indicated 4⅛ per cent coupon. Nomura also led the deal.

Late in the day, a Canadian dollar deal was launched for Scotia Mortgage Corporation. The C$100m five year issue at 10⅛ per cent and 101¼ was guaranteed by the Bank of Nova Scotia. The lead manager of the issue was ScotiaMcLeod, formerly known as McLeod Young Weir International.

A Bankers Trust-led Canadian dollar issue for ASLK-CGER Finance earlier this month was yesterday increased to a total of C$100m from an initial issue amount of C$75m.

Lloyds launches £100m variable rate notes

BY OUR EUROMARKETS STAFF

LLOYDS BANK yesterday issued £100m of subordinated variable rate Eurosterling notes in two tranches, on which the interest rate payable will be set quarterly in advance at a margin above the three month London interbank offered rate.

For both tranches, the margin for the first three month period has been fixed at an annual rate of 0.25 per cent per annum.

Merrill Lynch was the sole lead manager on the issue and will also make a market in the notes, undertaking to repurchase at par any notes tended to it by investors every three months. Thus, anyone who buys the notes always has the option of either holding the securities or of redeeming them at face value.

Merrill Lynch and Lloyds will agree on a new interest rate margin prior to each quarterly period at an appropriate level to accurately reflect prevailing market conditions.

In the unlikely event of a margin not being agreed on, the notes will earn interest at a fall-back margin of 0.7 per cent per year over three month Libor, representing the maximum total cost to Lloyds.

Placer battle faces delay

By Robert Gibbens in Montreal

A BIDDING WAR for Placer Dome's 25 per cent controlling stake in Falconbridge, Canada's second biggest nickel producer, may be subject to further delay.

The Ontario Securities Commission has approved a plan by Falconbridge to buy the block, worth more than C$600m (US$500m), itself. Falconbridge's plan includes a special cash dividend to all shareholders and it would also take over Placer's 53 per cent holding in McIntyre Mines, a major western Canadian coal producer.

Falconbridge's only opponent so far is Noranda, Canada's largest resource company. Noranda asked the OSC to rule that Placer's 25 per cent fully diluted interest in Falconbridge is really 19.4 per cent undiluted. In that case, Noranda would be exempted from making a follow up offer for all the Falconbridge stock, costing more than C$2bn.

However, the OSC has refused the request for an exemption.

Placer has already postponed the expiry date for bids for its Falconbridge interest because of the OSC hearings. It was due to decide late yesterday whether to make a further postponement.

Among the several groups rumoured to be interested are Australia's Western Mining and the RTZ group of Britain.

NCSC examines disposal rules

THE NATIONAL Companies and Securities Commission (NCSC), Australia's corporate regulator, is seeking comment on whether the law and listing rules are adequate to cope with the sale of a controlling interest in a company by a single shareholder, Reuter reports from Melbourne.

Losses widen at Rand London

By Our Financial Staff

RAND LONDON, the South African mining associate of NSM, the UK coal group known until recently as Burnett & Hallamshire, sharply widened its pre-tax loss to R10.3m ($4.5m) for the year to March, compared with just R619,000.

Since the year-end the company and its UK parent have been restructured, leaving Rand London in "much better shape," it said yesterday. This came through a rights issue underwritten by NSM, which now holds just under 50 per cent. The British company has, however, written off Rand London in its books and is believed keen to find a buyer for the stake.

Rand London suffered a 27.4 per cent fall in sales for the year to R46.2m, which it blamed on oversupply, a stronger rand, Natal floods, and the effect of sanctions. It said this last pressure remained but the overall market for its anthracite had improved.

Hochtief loan for Leighton

LEIGHTON HOLDINGS, an Australian construction and property development group, said West Germany's Hochtief, its largest shareholder, would provide it with a facility of up to A$150m for property development projects.

In addition, Hochtief would provide a nearly A$10m subordinated convertible loan facility to strengthen the group's balance sheet. This loan would be convertible into 10.5m ordinary shares at 95 cents each in the next three years, compared with the current market price of 78 cents.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market.

Closing prices on June 29

US DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Abbey National 7½ 92	200	95	95½	+0½	+0⅝	9.11
All Nippon Air 9⅜ 97	100	†96⅜	96⅞	+0⅝	+0⅛	9.95
American Brands 8⅞ 92	150	†99⅛	99⅝	+0⅞	+0⅛	9.06
A/S Eksportfinans 7⅜ 93	100	†94⅛	94⅝	+0⅜	+0⅛	8.95
A/S Eksportfinans 7¼ 92	150	94⅞	95⅛	+0¼	0	8.88
Barc. Bk. Fin. 10¼ 89	200	†102⅞	103⅛	+0⅛	+0⅛	7.83
Belgium 9⅛ 92	400	†100⅝	101⅛	+0⅜	+0⅛	8.85
British Telecom 7⅝ 96	250	89⅞	90¼	+0⅜	+0¼	9.43
Cal. Natl. Telecom 8½ 93	160	†98⅞	99⅜	+0⅜	+0⅛	8.72
Canada 9 96	1000	†99⅛	99⅝	+0½	+0½	9.10
Canadian Pac 10¾ 93	100	†103½	104½	0	0	9.69
C.C.C.E 7¼ 91	113	†95½	96	+0⅜	+0⅛	8.63
C.N.C.A 7¼ 91	150	†94⅞	95⅜	+0⅜	+0⅛	8.92
Coca-Cola Ent. 8¼ 90	100	*†98⅜	99¼	0	0	8.80
Credit Lyonnais 9 91	200	100⅞	101⅜	+0⅜	+0⅛	8.48
Credit National 8¼ 93	200	96⅞	97⅜	+0⅜	+0¼	9.00
Credit National 7⅜ 92	100	95	95½	+0⅜	+0⅛	8.88
Credit National 7¼ 91	150	95⅜	95⅞	+0⅜	+0⅛	8.74
Denmark 7⅛ 92	500	94⅛	94⅝	+0⅛	0	8.96
E.E.C 7 91	100	95	95½	+0⅜	0	8.63
E.E.C. 7¼ 93	250	93⅜	93¾	+0⅛	-0⅞	8.99
E.E.C 8¼ 96	100	†93⅝	94⅛	+0½	+0¼	9.37
E.I.B. 7⅝ 93	100	94¼	94⅝	+0½	+0⅜	8.92
E.I.B. 9⅜ 97	150	†99⅝	100	+0¼	+0⅛	9.41
Elec. De France 9 98	200	96⅝	97⅛	+0½	+0¼	9.49
Finland 7⅞ 97	200	†90⅜	90⅞	+0½	+0⅛	9.51
Finland 7½ 93	200	94	94½	+0½	+0¼	8.92
Finn. Exp. Cd. 8½ 92	200	98⅝	99¼	+0⅜	0	8.84
Ford Motor Credit 8 91	250	†98¼	98¾	+0½	+0⅛	8.61
Gen Elec Credit 10¼ 00	200	*†100¼	101¼	0	-0⅞	10.10
G.M.A.C. 8 89	250	†99⅞	100⅛	+0⅛	+0⅛	7.84
G.M.A.C. 8¼ 89	200	†100⅛	100⅞	+0¼	+0⅛	7.58
Neste 8¼ 97	100	†93⅞	94⅜	+0⅜	+0⅛	9.25
Italy 9 90	1000	101⅜	101⅞	+0⅛	+0⅛	8.21
L.T.C.B of Japan 8 91	100	98⅛	98⅝	+0¼	+0⅛	8.55
L.T.C.B. of Japan 8 97	200	90	90⅜	+0⅜	+0¼	9.74
Mercedes-Benz Cd. 8½ 95	100	96¼	96¾	+0⅜	+0⅛	9.21
Metropolis Tokyo 9½ 93	200	101⅜	101⅞	+0⅜	+0⅛	9.02
Morgan Guaranty Tst. 7 90	150	†98	98½	+0⅛	+0⅛	8.10
Norway 8¼ 93	500	99⅛	99⅝	+0⅛	+0⅛	8.86
Pepsico Inc 7½ 93	200	*†94⅛	94⅝	0	+0⅛	8.84
Portugal 8¼ 91	300	98⅛	98⅝	+0⅛	+0⅛	8.92
Prudential Crp. 8¾ 94	125	†99½	100	+0½	+0⅛	8.80
Qantas Airways 10⅛ 95	140	†103⅞	104⅜	+0½	+0⅛	9.54
Saab Scania 9½ 91	125	†102⅝	103⅛	+0⅜	+0⅛	8.21
Saskatchewan 10¼ 92	100	†104½	105	-0⅛	-0⅛	9.14
State Bk S Aust 9¼ 93	100	†99⅞	100⅜	+0½	-0⅛	9.19
Swed Exp Cred 7¼ 91	100	†95¼	95¾	+0¼	+0⅛	8.83
Swed Exp Cred 10 92	100	†103⅜	103⅞	+0⅜	+0⅛	8.86
Sweden 7 91	250	95½	96⅛	+0⅜	0	8.52
Sweden 7 92	250	†95⅛	95⅝	+0⅜	+0⅛	8.51
Sweden 8¼ 96	200	96½	97	+0⅛	+0⅛	9.34
Sweden 8½ 92	200	*†98⅞	99⅜	0	+0⅛	8.75
Victorian Rep 11⅛ 92	150	†107⅝	108⅛	+0⅛	+0⅛	9.88
World Bank 7 92	300	†94⅜	94⅞	+0¼	-0⅛	8.79
World Bank 9 97	300	98⅛	98½	+0⅛	+0⅛	9.28
Yasuda Trust Fin 8½ 93	100	97	97½	+0¼	0	9.24

Average price change... On day +0⅛ on week +0⅛

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Asian Dev. BK. 6 94	200	100	100½	0	-0⅞	5.92
Aris Fin. SVS 5⅞ 92	100	†101¼	101¾	0	0	5.41
Bank of Tokyo 5¾ 93	100	†102¼	102¾	0	-1	5.13
Central BK. Turkey 7 92	200	†—	—	—	—	—
Commerzbank o/s. 5⅜ 93	300	†99⅜	100⅛	0	0	5.40
Degussa Int. 6¼ 97	200	99	99⅜	-0¼	+0¼	6.21
E.I.B 5½ 98	150	95⅝	96⅛	0	-0¼	6.05
E.I.B 6 97	300	98¼	98¾	0	-1	6.22
E.I.B. 6⅛ 96	300	99⅜	100⅛	0	-0⅜	6.16
E.I.B. 6⅛ 97	400	99⅜	100⅛	0	-1	6.16
E.I.B. 6⅞ 95	300	103⅝	104⅛	0	-0⅛	6.18
Euro. Coal & Steel 5⅞ 97	175	97⅜	98⅛	-0⅛	0	6.21
Eurofima 6¼ 96	100	100⅞	101⅜	-0⅛	-0⅛	6.13
Elec De France 5¾ 97	300	95⅞	96⅜	0	-0⅛	6.31
Forsmark Krtg. 5⅛ 93	200	100¼	100¾	0	0	4.99
I.A.D.B. 6 97	200	97⅞	98⅜	0	-0⅛	6.30
IBJ 5⅞ 92	100	†101⅛	101⅝	0	-0¼	5.50
Japan Finance 5¾ 97	100	94⅝	95⅛	0	-0⅛	6.52
Ireland 6½ 97	300	†99¼	100¼	0	-0¼	6.50
Korea Dev BK 6⅜ 93	100	101⅞	102⅜	0	0	6.08
Malaysia 6¼ 94	150	99⅝	100⅛	0	0	6.25
Nat. West BK. PLC 6 98	300	97	97½	0	-0½	6.38
Oesters. Kombk. 5 93	300	99⅛	99⅝	0	-0½	5.12
Portugal 5¾ 92	150	100⅛	100⅞	0	-0⅞	5.61
Portugal 6⅝ 95	150	100⅛	100⅞	0	+0¼	6.53
Privatbanken 5¼ 93	150	98⅞	99¼	0	-0⅛	5.49
Royal Insurance 5½ 92	300	†100¾	101¼	0	-1	5.19
Statoil 6¼ 97	200	†98⅜	98⅞	-0⅛	+0½	6.45
Soc Cent Nuclear 7¼ 95	150	103⅝	104⅛	0	-0⅜	6.52
Westdb. Finance 5 93	200	†99¼	99½	0	+0¼	5.15
World BK. 6⅛ 97	600	99⅝	100⅛	-0⅛	-0⅛	6.25

Average price change... On day -0⅛ on week -0⅛

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
African Dev. Bk. 5⅜ 96	100	†102½	103	0	+0¾	5.20
Asfinag 5 02	150	†99¼	99¾	+0½	+0⅜	5.05
Bk. Frgn. Econ. Ussr 5 98	100	†100	100½	-0⅜	+0¼	4.96
Bayer W/W 2½ 02	250	†99¼	99½	-0½	0	2.55
Bayer. Vrnsbk. Os. 4½ 98	100	†100½	100¾	+0¼	+0⅛	4.66
Elec. De. France 5 07	100	†99¼	100¼	0	+0⅞	5.02
E.I.B. 4¾ 97	200	†100	100½	0	0	4.71
E.I.B 4⅝ 97	200	†99	99½	-0⅜	-0¼	4.73
Enso Gutzeit 5 99	100	†100	101	0	+0⅝	4.94
Ireland 5 02	150	†98½	98¾	0	0	5.14
Nippon Suis. Kshg. 4⅝ 93	80	†102	102½	0	0	4.12
Occidentl. Petrol 5¼ 92	100	†103¼	103½	+0¼	0	4.71
Prov. of Manitoba 4¾ 02	200	†99¼	99½	0	+0¼	4.83
Prudential Fin. 4⅞ 98	200	†99	99¼	-0⅞	-0⅜	4.86
Qantas Airways 4¾ 97	110	†97¼	97¾	0	+0¼	5.10
Trans-Can. Pipe 4⅞ 94	100	†101½	102	+0¼	+0½	4.51
Usfrg. 5½ 96	120	†103	104	+0¼	-0½	4.93
Victoria Pub. Ath. 5¾ 03	118	†101	101½	-0⅜	-0¼	5.25
World Bank 5 02	200	†99½	99¾	0	-0¼	5.04

Average price change... On day -0⅛ on week +0

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Belgium 5⅛ 92	55	100⅞	101	-0¼	-0½	5.14
Belgium 4⅝ 94	45	95⅝	96	-0⅜	-0¼	5.48
Canada 4⅞ 92	80	97½	97¾	-0¼	-0⅝	5.65
Elec. De France 5⅛ 94	20	98⅞	99¼	-0½	-0⅜	5.33
Ireland 5¼ 93	30	99⅝	100	-0½	-0¼	5.18
Norway 5⅜ 95	50	98⅛	98⅜	-0¼	-0⅝	5.44
Rep. of Italy 5⅝ 92	150	102⅜	102⅝	-0¼	-0⅜	4.97
Sweden 4⅝ 93	50	97¼	97½	-0¼	-0⅛	5.25
World Bank 5⅜ 92	50	101⅞	102⅛	-0⅛	-0½	4.96

Average price change... On day -0¼ on week -0½

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Abbey Nat. BS. 10¼ 93 £	50	99⅞	100	-0¼	-1	10.32
Alg. Bk. Ned. 5½ 92 FL	150	100⅞	101¼	-0¼	+0¼	5.10
Amro Bank 6¼ 92 FL	150	101¼	101⅞	+0⅛	-0¼	5.82
Barc. Aust. 14 91 A$	20	100⅞	100⅞	+0⅛	-0½	13.68
Barc. Bk. 10¼ 97 £	250	96⅝	97⅛	-0⅛	-1¼	10.77
BP Capital 9⅝ 93 £	100	98	98½	0	-1	10.21
British Airways 10 98 £	100	94⅞	95⅜	-0⅛	-1¼	10.82
C.I.B.C. Mort. 10¼ 93 C$	100	†100⅛	101¼	0	0	10.43
Coop. Ctr. Rabo. 6¼ 93 FL	100	101¼	102¼	+0½	-0½	5.73
Coop. Ctr. Rabo. 6 92 FL	200	100⅞	101⅜	+0⅛	-0⅝	5.68
Denmark 7⅜ 92 ECU	100	103	103⅜	-0¼	-0⅛	6.71
Deutsche Bank 9⅞ 97 £	75	†96	96½	-0½	-1½	10.54
Deut. Bk. Aust. 12⅜ 95 A$	70	99⅜	100	+1⅛	+1½	12.80
E.I.B 10¼ 98 C$	130	†98⅞	98⅞	0	+0¼	10.34
E.I.B 8⅝ 93 LF	10	†101½	102½	0	0	8.06
Elec. France 10¼ 95 C$	125	†100⅛	100⅞	0	+0¼	10.11
Euratom 7⅝ 97 ECU	145	95½	96⅛	0	0	8.06
Eurofima 7½ 92 FL	50	†106½	108½	0	0	5.28
Fed. Bus. Dv. Bk. 9⅞ 92 C$	75	†99⅞	99⅞	0	-0⅛	9.86
Ford Cr. Can. 10¼ 93 C$	100	†101½	102	0	-0⅝	10.22
Gillette Can. 9⅝ 93 £	70	94⅝	95¼	0	-1	10.96
G.M.A.C. 9¼ 93 C$	150	†98½	99	0	0	10.07
G.M.A.C. 9⅛ 92 C$	75	†99½	100¼	0	0	9.24
G.M.A.C Aus. Fin. 14 90 A$	50	100⅛	100⅝	+0⅛	-0⅛	13.75
Halifax BS 10⅜ 97 £	100	97⅜	98	-0⅛	-2⅛	10.79
Heineken NV. 6½ 91 FL	150	†102½	103⅛	0	0	5.16
Imp Chem Inds 10 03 £	100	96⅞	97	-0⅜	-0⅜	10.45
Inv. Industry Int. 10 93 £	60	98⅛	98½	-0¼	-1¼	10.46
Lloyds Bank 10¼ 98 £	150	95½	96	-0¼	-1⅛	10.96
Mtge. Bk. Den. 6¼ 91 FL	100	102½	103¼	+0⅛	-0¼	5.55
Nat. Australia 14 92 A$	50	100½	101	0	-0⅛	-0.04
Nat. West. Bk. 13⅛ 92 A$	50	†100⅞	101⅞	-1⅛	-0⅞	12.72
Nationwide BS 10⅛ 93 £	75	98⅛	98⅝	0	-1	10.52
Ned. Midd. Bank 6 92 FL	150	100⅞	101⅜	+0⅛	-0¼	5.65
New Zealand 9½ 93 £	100	96⅞	96⅞	-0⅜	-1⅛	10.48
New Zealand 7⅞ 93 ECU	200	100⅛	101⅛	0	-0⅛	7.47
Oesters. Ktbk. 13⅝ 94 A$	75	101⅞	102⅜	+0½	+0½	13.07
Prudential Fin. 9⅞ 07 £	150	†87⅞	88⅜	-0⅛	-1⅞	10.88
Royal Bk. Scot. 10⅛ 98 £	125	97⅛	97⅝	-0⅛	-1⅜	11.11
S.D.R. 7⅝ 95 ECU	90	98⅞	99⅜	0	0	7.91
Wstd. Lb. Fin. 12½ 93 A$	50	†99⅝	100⅛	+0½	-0⅞	12.47
World Bank 5⅜ 92 FL	100	101⅞	102⅜	+0½	-0⅛	5.18
World Bank 13⅛ 92 A$	100	†99⅞	100¼	-0¼	-3	13.36

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn
Alberta 3 93	†.0312	100.19	100.29	13/12	7.91
Alliance & Leic. Bld 94 £	.08	99.30	99.35	21/07	8.33
Belgium 91	0	100.21	100.31	22/08	7
Britannia 5 93 £	0⅛	99.76	99.81	8/07	8⅜
Chase Manhattan Corp 91	0⅛	99.26	99.44	22/08	6.94
Citicorp 98	10⅛	96.90	97.15	31/08	7.69
EEC 3 92 DM	†0	100.42	100.52	22/08	3.56
Halifax BS 94 £	.1	99.61	99.66	9/08	8.47
Invt. in Industry 94 £	0	99.44	99.54	24/08	7.81
Leeds Perm. B/S. 94 £	0⅛	99.90	99.95	13/07	8.37
Midland Bank 01 £	.1	94.37	95.87	11/08	8.54
Milk Mkt. Brd. 5 93 £	0⅛	99.79	99.84	30/06	8.81
New Zealand 5 97 £	.07	99.72	99.82	18/08	7.81
New Zealand 5 01	0	99.73	99.83	4/08	6.98
United Kingdom 5 92	†0	99.99	100.09	7/07	6.94
Woodside Fin. 5¼ 97	†0	99.75	99.85	28/07	7.31
Woolwich 5 95 £	0⅛	99.22	99.27	19/08	7.87

Average price change... On day +0.20 on week +0.03

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
Alcoa 6¼ 02	8/87	62	104¼	105¼	-0¼	23.99
Alco Health 6¼ 01	17/86	26.25	110	110½	-1¼	-0.65
American Brands 7⅛ 02	9/87	56.7	101⅛	102⅛	+0⅛	20.82
American Can Co. 5½ 02	4/87	66.75	65	66	+0⅛	62.65
Ashikaga Bank 2⅛ 02	4/87	967	126½	128	-6	-4.42
Asics 5 92 DM	12/83	472.7	197	198½	-3⅛	3.99
CBS. Inc. 5 02	†4/87	200	90½	91½	+0⅛	15.10
Fuji Hvy Inds 3 00	8/85	676	229⅞	231¼	+4½	5.69
Fujitsu 3 99	5/84	1106	234	235	-0⅞	1.84
Gunma Bank 2⅛ 02	†4/87	808	150	151	-12⅛	-2.05
Kinki-Sogo Bk. 2⅞ 03 US	4/88	1069	121¼	122⅞	-2⅞	-5.49
Land Secs. 6¾ 02 £	6/87	6.72	98⅛	99⅛	-0¼	15.70
MCA INC 5¼ 02 US	9/87	69.62	82⅛	83⅛	+2⅛	33.21
Minolta Camera 2⅛ 94 DM	2/86	1004	102⅛	104⅛	+2	21.66
Mitsubishi Bk. 1⅛ 02 US	9/87	3157	106⅛	107⅛	-2⅛	2.19
Mitsui trust 2⅛ 01	10/86	1903	123⅛	124⅞	-3⅛	-2.47
Next PLC 5⅛ 03 £	11/87	4.3	102⅛	103⅛	-1⅛	73.74
Nishi Nipp. Bk. 2⅞ 03 US	4/88	804	120	121	-0⅛	3.62
Omron Tateisi 2⅞ 02	4/87	1310	208⅛	210⅛	+5⅛	3.83
Ranks Hovis 4⅛ 03 £	†1/88	3.5	120	121	+0⅞	7.58
Redland 7⅛ 02 £	1/87	5.4	90⅛	91⅛	-1⅛	18.98
Texas Inst. 2⅛ 02 US	9/87	82.87	79⅛	80⅛	0	34.20
W.R. Grace 6¼ 02 US	9/87	42.12	86⅛	87⅛	+0⅛	37.42

* No information available-previous day's price

† Only one market maker supplied a price

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week = Change over price a week earlier.

Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte = Date next coupon becomes effective. Spread = Margin above six-month offered rate (three-month; §above mean rate) for US dollars. C.cpn = The current coupon.

Convertible Bonds: Denominated in dollars unless otherwise indicated. Chg. day = Change on day. Cnv date = First date of conversion into shares. Cnv. price = Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem = Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

Chief financial officer

West End, c£35,000 + car + benefits

GRE Properties Limited, the independent property subsidiary of GRE plc, provides comprehensive development, investment and management services. It manages funds of over £900m and invests £150m annually in direct development, mainly for GRE funds. The Company has a record of exceptional investment performance which it is determined to maintain and improve through its young and dynamic management team.

As Chief Financial Officer, you will report to the Managing Director and work with him, the four executive directors and 100-strong staff. You will establish and develop systems to support existing business and planned future growth, provide management information, introduce sound financial reporting and control and further develop computer systems support. There is already a network of 80 PC's running a property management system.

This is an exciting growth opportunity for a qualified accountant, in your early 30's, with management and systems experience, ideally in the property sector.

Résumés please, with daytime telephone number, to Robin Alcock, quoting Ref RA 945.

Coopers & Lybrand Executive Selection

Coopers & Lybrand Executive Selection Limited

Shelley House 3 Noble Street London EC2V 7DQ

GRE PROPERTIES

COUNCIL FOR NATIONAL ACADEMIC AWARDS

ACCOUNTANT

CNAA is a chartered body with the responsibility for awarding degrees in Polytechnics and Colleges nationally.

We are seeking an accountant, preferably qualified, to make a positive contribution to our small Finance Unit.

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UK COMPANY NEWS

All-round growth lifts Thorn EMI

BY TERRY DODSWORTH, INDUSTRIAL EDITOR

PRE-TAX PROFITS at Thorn EMI, the diversified UK retailing and industrial group, jumped by 41 per cent from £159.5m to a record £225.3m in the year to March 31 underscoring the financial turnround since its managerial crisis in 1985.

Mr Colin Southgate, chief executive, said yesterday that the rise had been achieved by improvements across the full range of the company's activities. This included a significant change in the fortunes of Inmos, the group's semiconductor subsidiary, which has turned into profit over the last few months after several years of losses.

Turnover for the year fell to £3.1bn (£3.2bn), reflecting the disposal of the company's domestic appliance activities and the Ferguson television manufacturing subsidiary.

Operating profits, however, rose by 29 per cent from £173.3m to £223.7m. About one third of this increase was contributed by three new acquisitions – the Jarnkonst lighting company in Scandinavia, a group of Continental European rental businesses bought from Granada, and the Rent-A-Center rental business acquired in the US.

Following an extensive reorganisation and disposal programme over the last three years, Thorn is now split into four main divisions. Among these, the most dramatic turnround in operating performance came in the consumer and commercial segment, which includes lighting, and which achieved profits of £20.3m last year against £5.4m in the previous 12 months. Mr Southgate said there were still great opportunities for cost reductions in this division.

In rental and retail, profits rose from £128.1m to £147.9m, while in the technology division, which includes the group's defence interests and Inmos, they increased from £29.4m to £39.4m. Inmos lost £10m over the whole of last year, but turned into profit in the last quarter, and has since made about £1.5m in the first quarter of this year.

Mr Southgate said that Thorn still intended to sell between 25 per cent and 30 per cent of Inmos, which he expected to be profitable for this year. The company needed a partner, he added, because it did not have a sufficient number of high technology interests of its own to create high volume demand for Inmos' components. But in the current year he did not expect that capital spending in Inmos would amount to more than its depreciation charge of £15m and it would almost be able to fund itself from its own resources.

Thorn's borrowings also fell substantially last year, to £59m after taking its cash balances into account. This left the gearing on shareholders' funds at about 9 per cent against 38 per cent a year ago, and pushed down the interest charge from £32.3m to £18.4m.

Extraordinary items, mainly due to rationalisation costs in the US, were down from £24.7m to £14.2m, leaving profits attributable to the holding company at £123.3m against £74.9m. Earnings per share rose by 21 per cent to 53.1p (43.9p), while dividends are being increased by 19 per cent from 18.5p to 22p.

Colin Southgate: change in Inmos fortunes

See Lex

Storehouse pays out £599,000 to ex-directors

By Maggie Urry

Two directors – Mr Denis Cassidy and Mr Colin Williams – who left Storehouse, the retail company, last September have received a total of £599,000 in early retirement provisions and other compensation for loss of office. The figure is revealed in Storehouse's annual report published yesterday.

Mr Cassidy had been deputy chairman and chief executive and Mr Williams assistant managing director of BhS, the chain store with which Storehouse merged early in 1986.

They both resigned when Sir Terence Conran, the Storehouse chairman, announced that he was recruiting a new chief executive from outside the group. That post was later filled by Mr Michael Julien.

In his chairman's statement Sir Terence thanked Mr Cassidy and Mr Williams "for their combined forty-seven years energetic and dedicated service."

Mr Cassidy is now chairman of Gillow, the furniture retail group which includes Waring & Gillow and Maples.

The accounts also show that the Conran Foundation, a charitable trust of which Sir Terence is a trustee, reduced its shareholding in Storehouse from 900,000 shares to 550,000 during the year.

Sir Terence's salary, excluding pension contributions, rose from £99,517 to £117,630.

GEC rises 6% to £708m despite strength of sterling

BY TERRY DODSWORTH, INDUSTRIAL EDITOR

BOTH TURNOVER and pre-tax profits at General Electric Company rose by 6 per cent last year, with most of the group's divisions turning in higher trading profits.

The results, described as "gratifying" by Lord Prior, chairman, were affected negatively by exchange rates during a period when sterling strengthened against most trading currencies.

If exchange rates had held at the previous year's level, trading profits would have been 18 per cent higher, said Lord Prior. In the event, they rose by 14 per cent from £492m to £561m, while pre-tax profits increased from £668m to £708m, and sales from £5.25bn to £5.55bn. The pre-tax figure would have reached £730m if the same exchange rate had been applied.

Lord Prior said that the group had been involved in absorbing several important acquisitions during the year, and would "continue to seek suitable opportunities for acquisition, collaborative arrangements and the expansion of our overall operations". In international markets the group was continuing to win orders, and "there was every prospect of further successes".

The divisional breakdown showed a decline in trading profits in the medical equipment division, which GEC had hoped to merge with the medical activities of Philips of the Netherlands before the preliminary agreement fell through earlier this year.

Profits fell to £21m from £26m in this division, and were static at £46m in the automation and control division and in distribution and trading (£12m). But profits rose in all the other divisions, reaching £209m against £174m in electronic systems and components, and £102m compared to £95m in telecommunications and business systems. There was also a big turnround in consumer products, where GEC manufactures the Hotpoint range. This division showed a profit of £60m against £35m.

The total order book fell to £5.9bn from £6bn, and the group's net cash position also showed a reduction to £1.38bn from £1.73bn, reflecting acquisitions during the year. The company spent £490m on acquisitions, and this, along with lower interest rates, accounted for a reduction in income receivable from loans and investments to £132m from £162m.

Earnings per share amounted to 16.9p against 15.8p. The proposed final dividend of 4.7p raises the total for the year to 6.5p from 5.3p, an increase of 23 per cent.

See Lex

Lincat to join USM at £7.78m

BY FIONA THOMPSON

Lincat Group, a catering equipment manufacturer, is to join the Unlisted Securities Market via a placing which values the company at £7.78m.

Charterhouse Bank is placing 2.55m shares, representing 37.8 per cent of the enlarged equity, at 115p, to raise £2.94m.

Lincat, incorporated in 1971, designs and makes a wide range of commercial catering equipment, including grills and griddles, toasters, electric fryers, hot drink dispensing machines, meat and vegetable slicers and food trollies.

The group's customers are pubs and restaurants, clubs, and canteens in schools, hospitals and factories.

The growth of the leisure industry and the tendency for people to eat more meals away from home have given a boost to the UK catering equipment market, as has the pressure on pubs to provide food of a higher quality than cheese rolls.

Of the 2.55m shares placed, 294,645 are being sold by John and Martin Craddock, president and chairman respectively; 1.39m are being placed by Charterhouse Development Capital; and 869,565 new shares will raise £750,000 for the company. This will be used to reduce borrowings and for expansion.

In the past five years the company has grown from pre-tax profits of £144,000 in 1983 to £840,000 in 1987 on sales up from £1.45m to £4.79m.

The directors are forecasting that pre-tax profits for the year ending June 30, 1988 will be not less than £975,000, putting the company on a prospective p/e ratio of 10.7.

Sainsbury off to good start

The current year had started well at J. Sainsbury, food retailer, Sir John Sainsbury, the chairman told the annual meeting.

The company would have the benefit of opening a further 18 stores but, as last year, their opening dates were heavily concentrated in the second half.

This was largely accounted for by planning delays, but it was expected that by next year the increased number of stores in the development programme would result in a much improved spread through the year.

Menzies placing

John Menzies, newsagent, newspaper wholesaler and toy retailer, yesterday announced a £20m placing of unquoted preference shares. The proceeds will be used to repay half the debt assumed when it bought 66 stores from the Martin Retail Group for £41m cash in April.

The company has conditionally placed £20m in nominal value of new £1 cumulative preference shares redeemable at par in 2003. The coupon and the subscription price will be fixed to ensure a premium of 1.75 per cent to the gross redemption yield of the 13½ per cent Treasury Stock 2004/08 on July 22.

KLP to hold £9m rights issue to finance two US acquisitions

BY DAVID WALLER

KLP Group, independent sales promotion company, is expanding in the US with the acquisition of two companies for a maximum of $25.6m (£15m). KLP is also holding a £9m rights issue, the bulk of which will be used to finance the initial cash payments for the two US companies.

Details of the acquisitions emerged yesterday as KLP announced a 58 per cent increase in pre-tax profits to £1.53m for the six months to the end of March. It reported a broad advance across all fronts, and earnings per share improved by 20.7 per cent to 9.58p. The interim dividend was raised from 1.8p to 2.1p, while turnover rose from £15.55m to £24.7m.

The two acquisitions are the sixth and seventh purchases KLP has made this financial year. Metro Seliger Industries, the larger of the two companies, is a direct-marketing agency based in New York, and Field Research Corporation is a research company located in San Francisco.

MSI, founded in 1969, provides a range of direct-marketing services including graphic art, printing, mailing, data capture and warehousing. Field Research is a consumer, market and public opinion research agency known for conducting the California Poll.

Turnover at MSI has grown from $9.99m in 1984-85 to $11.86m last year, and pre-tax profits have climbed from $340,000 to $1.19m over the same period. At Field Research, sales have grown from $4.04m to $5.35m between 1985 and 1987, and pre–tax profits from $356,000 to $621,000 over the same period.

The initial consideration for MSI is $6.5m (£3.8m) in cash, with up to another $10.5m payable depending on post-tax profits performance in the four years to October 1992. The initial consideration for the smaller company is $2.6m, subject to further performance-related payments of $6m. Some £5.5m of the money raised by the rights will be used to finance the initial cash payments.

A further £200,000 will be used as the first of a series of payments to Mr Gerry Postlethwaite. KLP is bringing forward its plans to buy out his 25 per cent stake in KLP International, a holding company 75 per cent of which is owned by KLP. In time, he will receive a second payment of £175,000 and a maximum performance-related payment of £4.37m payable over the next four years.

Mr Postlethwaite joined the board of KLP in 1984 with a brief to expand the company's international activities via the holding company. KLP said yesterday that it was buying out Mr Postlethwaite's minority stake because of the group's increasing commitment to international expansion.

This showed through in the interim figures, as about £200,000 of the pre-tax total came from Comart Associates, the US marketing and promotion agency bought for an initial $20m last year and included for the full six months. According to Mr Colin Lloyd, chief executive, this figure would have been 15 per cent higher but for the effect of exchange rates on translation into sterling.

In the rights issue, shareholders will be entitled to one new convertible for every ordinary share held. On the basis of 9.5m shares in issue at the moment, the shares on conversion will account for 22 per cent of the enlarged equity.

Berisford subsidiary launches £75m debenture issue

BY CLARE PEARSON

BRITISH SUGAR, the refining subsidiary of S&W Berisford, diversified industrial and trading group, yesterday raised £75m-worth of 25-year funds through an innovative placing in the London bond market.

The issue is a debenture, secured on British Sugar's factories. But its documentation provides greater flexibility for the borrower than the very restrictive covenants attached to such bonds have in the past.

Concern about the restrictiveness of these covenants has been the main reason why no British industrial companies have borrowed in this form for more than two years, even though it is cheaper than borrowing on an unsecured basis.

British Sugar's cost-of-funds on yesterday's issue was about ½ percentage point lower than would have been the case if it had issued a bond that was not secured on its assets. Mr Tom Quinn of Barclays de Zoete Wedd, which placed the issue, said yesterday.

The bond has a 10¾ per cent coupon, payable semi-annually, and a 99.026p per £1 nominal issue price. On these terms, the gross redemption yield was 1.2 percentage points over that of the reference gilt-edged stock yesterday afternoon.

The proceeds of the issue will be used to convert some existing floating rate financing of S&W Berisford into fixed rate borrowings, Mr Philip Aaronberg, chief financial officer, said.

The crucial difference between the documentation of British Sugar's debenture, and that which was previously standard on such borrowings, is that it does not include the so-called "Tickler" clause. This effectively prevented the issuer from being able to invest in any business other than that it was carrying on at the time of issue.

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UK COMPANY NEWS

Blue Arrow below expectations

BY PHILIP COGGAN

SHARES in Blue Arrow fell by more than 10 per cent yesterday after the employment group announced interim results which were below analysts' expectations.

Pre-tax profits for the six months to April 30 1988 were £28m, representing a quintupling of the previous interim figures. But this year's results include Manpower for the first time.

On the back of the figures, analysts marked their profits estimates for the full year down from £100m to £95m and the shares fell 13p to 111p.

Mr Tony Berry, Blue Arrow's chairman, said he was surprised by the City's reaction as he was "very pleased" by the figures. The group's underlying growth rate was around 35 per cent.

Mr Berry added that Blue Arrow traditionally earned the bulk of its profits in the second half, although the disparity would be reduced by the purchase of Manpower.

The US group contributed around £21m to the overall profit and its results were substantially ahead of the corresponding period last year. Manpower has extensive operations outside the US and the only problem area was France, where the company's margins came under pressure in a fiercely competitive market.

Almost three-quarters of Blue Arrow's profits now come from outside the UK, including 41 per cent from the US. As a result, the weakness of the US dollar knocked around £2m off the interim profits figure.

Mr Berry said that he did not expect any major acquisitions this year although the company would probably look for a few specialist employment businesses.

In the long term, he hoped to build up the group's involvement in training and was considering the possibility of offering financial services to its client list.

Operating profits were £32.35m (£5.12m) on turnover of £619.7m (£90.8m). After an interest charge of £4.32m, which Mr Berry expected would fall in the second half, pre-tax profits were £28.03m (£5.11m).

The interim dividend is being trebled to 0.6p (0.2p) on the enlarged capital and Mr Berry said this was part of a policy of reducing dividend cover from around eight times last year to three times next year.

There was an extraordinary credit of £5.15m reflecting the gain on the disposal of the group's building services division. After tax of £10.7m (£1.79m) earnings per share were up 42 per cent to 2.4p (1.7p).

See Lex

Buckley's fails to release full-year figures

BY NIKKI TAIT

Buckley's Brewery, the South Wales brewery formerly controlled by Mr Peter Clowes and Mr Guy Cramer, yesterday failed to release its widely-expected full-year figures.

Last night, the company's newly-appointed merchant bank adviser, Morgan Grenfell, declined to elaborate on the non-appearance of the results. It did, however, add that a statement – not expected to be the results themselves – was likely to be made today. Morgan Grenfell was unable to explain why the statement could not be made last night.

Mr Peter Clowes himself resigned as a non-executive director of Buckley's shortly after the liquidation order on Barlow Clowes Gilt Managers was secured. Mr Guy Cramer, who took an executive role at the brewery following the duo's successful £29.2m cash bid last autumn, also stepped down earlier this week. However, no similar announcement has been made about his colleague and fellow Buckley's director, Mr Andrew Lindsay.

Merchant bank Singer & Friedlander has already put a 53 per cent interest in the brewery owned by Mr Clowes and Mr Cramer up for sale. The stake was used as security for a joint loan from the bank to the two men. When this was not repaid almost two weeks ago, Singer took possession of the holding and is planning to invite tenders.

Meanwhile, Spectrum – a small computer distribution company, where Mr Cramer has 29.9 per cent of the shares – announced yesterday that Mr Barry Tyler had resigned as deputy chairman and non-executive director. Mr Tyler is a senior dealer at Murray & Co., Birmingham-based stockbroker. Last night Mr Tyler was unavailable for comment.

Murray & Co. is also broker to Buckley's, but last night appeared unable to shed any further light on the situation at the Llanelli brewery. "We're all a bit in the dark", the Cardiff office said. "We can't give any reason – we don't know".

Far East Resources in £17.5m deal

Far East Resources, an oil and gas company which owns rights to explore in the Philippines, is expanding its interest in the area in a deal worth about £17.5m. It will gain control over operation of the concessions in both the North Cebu island and Bondoc areas of the Philippines.

The expansion will be financed by the issue of 13.7m new shares – 58 per cent of the enlarged capital. Its shares, which have been traded on the Third Market for a year, closed 7p up at 125p.

Godwin swings into profit

A YEAR of reorganisation enabled Godwin Warren Control Systems, Bristol-based manufacturer of electronic and computerised control systems, to report a move into profit.

The USM-quoted company's pre-tax figure for 1987 was £425,000 (£515,000 losses).

Turnover rose 10 per cent to £9.33m (£8.47m) and after increased tax of £265,000 (£17,000), earnings worked through at 3.3p (11p losses). A maintained final dividend of 1.1p is recommended, for an unchanged total of 2.2p.

North British shares suspended

Shares in North British Steel Group were suspended at 38p yesterday afternoon. The company said that a potential bid approach had been received and an announcement should be made in the next few days.

Earlier this month, North British announced a £275,000 loss before tax in the 28 weeks to April 16, with sales down from £7.55m to £6.69m.

The company has been reorganising operations but the full benefits of this were unlikely to come through until after August.

Horace Cory £3.2m purchase

Horace Cory, chemical colour manufacturer, announced the acquisition of Ellis Jones, Stockport-based pigment maker, for £3.2m in cash and shares.

Mr Michael Armitage, managing director of Ellis Jones will move to the same post at the enlarged company, which, it is proposed, will be known as European Colour.

Cory also announced an interim dividend of 0.4p and said that if the offer becomes unconditional in all respects, it would declare a final of 0.75p on the enlarged share capital for the 15 months ending March 31 1989.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres-ponding div	Total for year	Total last year
Crosby (James) ......fin	1.4	Oct 4	-	2	-
GEC ......fin	4.7	-	3.8	6.5	5.3
Godwin Warren § ..fin	1.1	-	1.1	2.2	2.2
Gresham House .....fin	3.5	Aug 31	3	6	5.43
Hardys & Hansons.int	7.2	-	6.2	-	21.5
KLP Group ......int	2.1†	Aug 19	1.8	-	5
Nesco Invs ......fin	0.5	Sept 9	2	0.5	2
Shoraiplan § ......int	2	Oct 3	-	-	1
Thorn EMI ......fin	16†	Oct 7	13.5	22	18.5

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. §§Unquoted stock. ¶Third market.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetables.

TODAY

Interims- Airtours, Greenwich Communications, Hey and Croft, TSB, Throgmorton Trust, Warner Holidays.

Finals- Asprey, Avesco, BPB Inds, Bangkok Inv, Cambrian Venture Capital, Courts (Furnishers), Debenham Tewson & Chinnocks, Marling Inds, MS International, Oglesby and Butler, Royal TrustDollar Income Fund, Scantronic, Shanks and McEwanStanco Exhibition, Syltone, Triplex Lloyd, Walker& Staff, Wiggins

FUTURE DATES

Interims-

Egerton Trust	July 8
Lex Service	July 28
Low & Bonar	July 14
Reuters	July 25
Television South	July 6
Transport Development	Aug 15
Tribune Inv Trust	July 21

Finals-

First Security	July 6
Hollas	July 6
Stewart & Wright	July 6

Nesco up sharply

Nesco Investments, electricity supplier in Nigeria and garage owner in Leicestershire, reported a significant improvement in pre-tax profits from £7,000 to £211,000 for the year to end-March. This was in spite of a further 29 per cent devaluation of the naira.

Earnings per share were 2.6p (2.9p losses). The proposed dividend for the year is lowered to a nominal 0.5p (2p).

Gresham House

In the year to December 31 1987, the net asset value of Gresham House, investment trust, increased marginally from £6.07 to £6.61 per 25p ordinary share.

Total income £2.54m (£2.7m). Interest and expenses took £2.03m (£2.13m), leaving pre-tax profits of £512,000 (£575,000). After tax of £58,000 (£127,000) earnings per share were 10.2p (12.4p).

The directors declared a second interim dividend of 3.5p (3p).

Hardys & Hansons advances 11%

Hardys & Hansons, Nottinghamshire-based brewer, lifted profits before tax by 11 per cent to £2.13m in the six months to April.

Turnover was virtually unchanged at £10.34m. The directors said that trading conditions had remained difficult with a further swing in draught beer sales from ales to lager.

Progress in the third quarter had been similar to that for the first half year, they added.

Interest from the group's substantial cash and investment mountain contributed a net £383,000 (£358,000). The tax charge was estimated at £744,000 (£672,000), leaving earnings per share of 27.68p (25p).

The interim dividend is lifted to 7.2p (6.2p).

Emess refused French bid injunction

The French appeal court has refused a preliminary injunction to the UK lighting producer Emess against a ruling by the Paris Bourse rejecting its offer for Holophane, the French lighting and industrial glass group.

The stock exchange authorities have agreed, however, to maintain the suspension of Holophane's shares until the court reaches a decision on the substance of Emess's case, thus effectively freezing the rival offer of Emess's UK competitor Thorn EMI.

The appeal court is expected to make an unusually quick judgment, probably by mid-July.

Emess offered FFr793.5m for Holophane, topping a Thorn offer. It believed it was assured of success because it had received signed commitments from shareholders representing 57 per cent of the French company's capital, even though the French takeover panel has declared its hostility to such irrevocable commitments in the middle of an offer period.

The Emess offer was conditional on approval by Emess's shareholders, however, and was therefore not immediately registered by the stock exchange.

In the meantime, Thorn lodged a new unconditional offer of FFr912.5m which was registered by the stock exchange. Under French takeover rules Emess would normally be required to exceed this bid by at least 5 per cent.

The court imposed costs of FFr254 on Emess.

Racal appointees

Racal Electronics yesterday announced that it had appointed Goldman Sachs as global co-ordinator of October's proposed flotation of its telecommunications division, which principally consists of Vodafone, the mobile telephone company.

N M Rothschild will be lead manager of the issue in the UK. Hoare Govett has been appointed as broker and will be assisted by Smith New Court.

Savoy staff speak out

Employees at the Savoy Hotel do not want to be taken over by Trusthouse Forte, it is claimed in a robust letter sent to the Financial Times yesterday, signed by 19 members of staff at the Savoy's flagship hotel in the Strand.

"We feel that being dragged into a huge conglomerate would dilute the standing of this fine British institution," the letter states. "The Savoy Hotels would become merely a branded product within an international 'luxury' hotels division.

"It is our sincere hope that the Savoy remains independent for at least another 100 years."

Steetley rights issue to raise £68m

BY PHILIP COGGAN

Steetley, building materials company, yesterday launched a one-for-five rights issue to raise around £68m for its expansion plans overseas.

The company is offering around 24.9m shares at 280p each, an 18 per cent discount to yesterday's opening price of 343p. The shares fell 18p to 325p yesterday.

Steetley said the rights issue, which is its first since 1974, was needed to allow the group to continue its policy of expansion in Europe and the US.

The company has made two major acquisitions since the start of this year - Carrieres de la Meilleraie in France, in which it has invested £30m and Canteras La Pola in Spain for £8m. In addition, the company has made other acquisitions in the UK and France costing a further £5m.

Steetley is now the biggest aggregates producer in France, and is keen to build up its position in Spain and the North Eastern corner of the US, where it made two acquisitions in 1987.

With capital expenditure of £56m already approved this year, the company believes it is time to reduce its gearing which has increased from 17 per cent to 37 per cent since the end of the last financial year.

Last year, Steetley made pre-tax profits of £60.27m on turnover of £487m. Analysts are looking for £77m-£80m pre-tax this year. Mr David Donne, chairman, said yesterday that "the current year is proceeding well with continuing strong demand in all the principal markets we serve."

The rights issue is being underwritten by S G Warburg and the brokers to the issue are Cazenove and de Zoete & Bevan. It is expected that dealings in the nil paid shares will commence on Monday, July 4; the last date for acceptance and payment under the rights issue will be July 22.

Philip Coggan on the plans of a revitalised building materials group

Fuel for overseas expansion

FIVE YEARS ago, Steetley was facing the end of 100 years of independence in the form of a £115m hostile bid from Hepworth Ceramic, the building materials group.

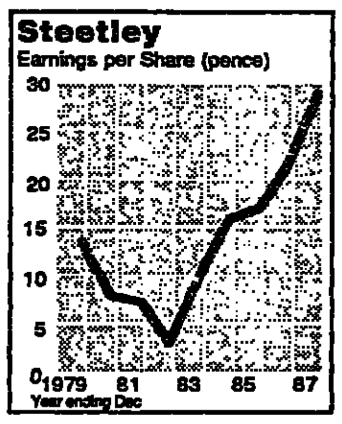
Its previous annual results - a 46 per cent decline in pre-tax profits to £9.35m - had been disastrous and the company was expected to have problems seeing off the bidder. But Dame Fortune intervened in the form of the Monopolies and Mergers Commission, and now, after several years of restructuring and expansion, Steetley is thought of more as predator than prey.

The company, which last year increased pre-tax profits by 36 per cent to £60.3m, is now the largest aggregates producer in France and the second largest brick producer in the UK. Its £68m rights issue is designed to enable the group to continue its expansion.

Steetley has always been involved in providing minerals for industry. In its early days, its primary products were dolomite and magnesium for the steel industry; since the 1960s, it has gradually concentrated on the construction sector.

It did diversify into specialty chemicals, via the purchase of Berk in the early 1970s, but this is now seen as a sideways rather than a positive move which helped contribute to the problems of the early 1980s.

The Hepworth bid was widely credited with causing the revitalisation of Steetley, but Mr Richard Miles, the man brought in as group managing director in 1985, thinks the group effectively sowed the seeds of its success in 1979.



"It was then that we bought Gibbons Dudley," he recalls. "Added to the purchase of Downings two years later, it made us the number two in the UK facing bricks market."

The group now has capacity to produce about 420m bricks a year and about 9 per cent of the UK brick market, or 12 per cent if the lower quality Fletton bricks are excluded.

Since Mr David Donne became chairman in 1983, Steetley's strategy has been to concentrate activities on the building materials sector. The peripheral operations have gradually been sold. The chemicals trading activities were bought by their management in March; the Canadian electrical distribution business was sold last November.

But Steetley's strategy had a logical implication - expansion overseas. As many UK building materials companies will attest, UK aggregates reserves are tightly held by a few large companies. Environmental considerations mean there are few prospects for developing new reserves.

Richard Miles: intends to expand in Spain

The search for new reserves has sent many UK building materials companies to the US - the most dramatic example being the recent $1.7bn takeover of Koppers, the chemicals and aggregates group, by Bath-based Beazer.

Steetley also believes that an international spread of business will enable it to survive the vicissitudes of both the construction and the economic cycles of countries.

The company had invested in France as early as 1974 when it purchased Ballestieres de Travecy, a quarrying company situated north-east of Paris. In recent years, Steetley has made a series of increasingly large acquisitions, culminating earlier this year in the purchase of Societe Carrieres de la Meilleraie, France's largest hard rock producer.

Steetley now has 7 per cent of the French aggregates market and believes there is plenty of scope for expansion. The French Government plans to add another 4,500km of motorway over the next 10 years to the existing total of 6,800km. In addition, the company has a quarry near the mouth of the Channel Tunnel and is a major producer of hard rock for use as ballast for the TGV, the advanced passenger train.

Mr Miles believes similar growth is possible in Spain where the group acquired a quarrying and ready-mixed concrete operation in the Madrid area in April.

With quarrying operations in Canada and brick businesses in the US, about 30 per cent of Steetley's profits are now earned overseas and Mr Miles is aiming for 35-40 per cent.

All this, and the continuing investment in the UK facilities, particularly the Parkhouse brickmaking works, has cost money. Acquisitions and capital expenditure cost £38m in 1986, £84m in 1987 and expenditure either made or approved this year comes to £117m.

Gearing has only reached 37 per cent - not excessive for a company in this sector.

BMSS set to join the USM

By David Waller

BMSS, a builders' merchant group operating primarily in the West Midlands, Merseyside and Wales, is planning to join the Unlisted Securities Market.

At the placing price of 118p per share, the company will have a market capitalisation of £8.6m. Some 1.88m shares will be placed, representing approximately 19 per cent of the enlarged equity.

All but 90,000 of these are new shares and the company will raise £1.8m net of expenses. Proceeds will eliminate borrowings and the balance will be used to help expand the company's network of 19 outlets, although no specific acquisitions are lined up at the moment.

The company, formed at the beginning of the century, was a vehicle for the late Lord Fitzwilliam, whose family trusts will be left with 73 per cent of the equity after the flotation.

Turnover has grown from £5.2m in 1984 to £10.08m in 1986, and pre-tax profits from £424,000 to £821,000 (before an exceptional item of £68,000) over the same period.

Earnings per share last year amounted to 5.15p. On this basis, the p/e ratio at the placing price is 11.9 times, assuming an actual tax rate of 27.4 per cent. Net assets of the company after the placing will be £5.9m.

The directors expect to pay a total dividend of 3.75p per share, representing a gross dividend yield of 4.2 per cent.

BMSS supplies a range of products for the building trade, with an emphasis on "heavy side" building materials such as timber, plywood, chipboard, insulation material and cement.

Approximately 4,000 active customer accounts are maintained.

The placing has been organised by Hambros Bank; brokers to the placing and the company are Albert E Sharp & Co.

CORRECTION

York Waterworks

Yesterday's FT incorrectly named the brokers to The York Waterworks Company's £3m offer for sale by tender. The water company's issue is being handled by Seymour Pierce Butterfield of 10, Old Jewry, London EC2R 8EA. The coupon for the issue is 7¾ per cent, not 3½ per cent.

Gandalf extends bid

Gandalf Technologies, the Canadian data communications group, has extended its £57m bid for UK computer networking company CASE until July 22.

At the first closing date, Gandalf had received acceptances from just 90,094 shares or 0.14 per cent of the equity. Gandalf already owned 9.53 per cent. CASE yesterday described the level of acceptances as "negligible" and urged shareholders to continue to reject the bid.

UK COMPANY NEWS

Sturge announces merger hopes

By Vanessa Houlder

Sturge Holdings, the Lloyd's of London underwriting agent, announced yesterday that it hopes to buy Rensburg, a Liverpool-based stockbroker.

If discussions now taking place are successful, the merger with Sturge's existing broking operation would create one of the largest UK stockbrokers outside London.

Mr Peter Davis, group finance director of Sturge, said that the move reflected Sturge's belief that there was a good place in the market for providing a service to private clients in the regions.

Rensburg, which has offices in Bradford and Leeds as well as Liverpool, would be combined with Sturge's existing broking subsidiary Wise Speke, which was acquired for £6.76m in shares in January 1987.

The combined operation is expected to service some 40,000 private clients and to act as broker to companies throughout the North of England. The merged fund management operation would manage over £1.5bn of funds.

Rensburg is of a similar size to Wise Speke, with about 20 partners, 125 staff and about 15,000 private clients. Wise Speke is expected to make a trading loss of £600,000 in 1988, although it is expected to return to profit next year. Rensburg is trading profitably.

Floyd Energy plans to liquidate New Darien if bid succeeds

BY NIKKI TAIT

Floyd Energy, the oil and gas explorer which is diversifying into other energy-related areas under Mr Simon Miller, its new chief executive and former merchant banker, yesterday emerged as the bidder for New Darien Oil Trust.

New Darien, a specialist investment trust managed by Edinburgh-based Hodgson Martin, announced last week that it had received a bid approach.

With Floyd planning to liquidate the New Darien portfolio if its bid is successful, the offer is essentially a disguised rights issue – the first since the stock market crash in October.

Although Floyd says it currently has net cash of £2m, much of that is earmarked for its Spanish operations. Money raised via the offer and subsequent liquidation of New Darien, would go towards further energy-related acquisitions. Yesterday, the company suggested that three potential deals, of varying sizes, were in the pipeline.

The alternative to the New Darien bid, it pointed out, would have been a series of share placings.

Under the terms of the bid, Floyd is offering 100 per cent of formula asset value (fav), either in its own shares – taken at the cash underwritten price of 26p – or in cash. If fav exceeds 70p, shareholders will receive the excess in cash, and the sum will be meet from Floyd's existing cash resources. The offer is being recommended in respect of the cash alternative.

Bryson Oil and Gas, which owns a 21.5 per cent interest in New Darien, has given irrevocable undertakings to accept and will take shares. This will give it about 6.7 per cent of Floyd. British Empire Securities, the other major shareholder, is also backing the deal – although it has not indicated which elections it will make – giving total irrevocable undertakings in respect of 48.8 per cent of the shares.

The fav figure will not be known until the offer goes unconditional. However, on the June 23 estimate of net assets per share standing at 67.7p, fav would be about 66.4p – about 98 per cent of nav – and the total bid value some £7.4m.

The fate of the 5,000 warrant holders is grim, however. The board recommends that they do not exercise their warrants, and if the bid succeeds their warrants will obviously become worthless. Yesterday, New Darien shares eased 1p to 69p. Floyd were steady at 29p.

J Crosby advances 94% to £1.74m

In its first full year since the management buy out in December 1986, James Crosby Group, Cheshire-based housebuilder, lifted taxable profits by 94 per cent to £1.74m.

Turnover for the 12 months to end-March expanded by 39 per cent to £9m (£6.47m). Mr *Michael Burgess, chairman of* the group which joined the main market last July, attributed the increase in turnover to "a careful choice of sites, well designed properties, awareness of customers' needs and the general buoyancy of the market".

After tax of £596,000 (£273,000), earnings worked through at 14.3p. A proposed final dividend of 1.4p makes a 2p total for the year.

Mr Burgess said that Crosby would continue to maintain a competitive presence in the open land market and would acquire further interests in longer term land.

The group was likely eventually to extend operations away from its north-west base and was prepared to build in most ranges of the market: "Our emphasis will be on overall profitability rather than numbers of units" he added.

Geevor suffers £0.68m loss

BY KENNETH GOODING, MINING CORRESPONDENT

Geevor, the mining company, sustained an operating loss of £676,000 for the year to March 31 1988 compared with a £39,000 profit in the previous 12 months.

But Mr Eric Grayson, the new chairman, says the company has now recovered from the impact of the 1985 tin crisis and, although the directors are unable to pay a dividend for 1987–88, "I believe the future is bright and beckoning for Geevor".

The company recorded a pre-tax profit of £24,000 in the year under review, compared with £39,000, after taking into account a number of exceptional items. These included £302,000 as settlement for a claim against the West German group, Metallgesellschaft, over the price to be paid for tin delivered just before the price collapse. Pension fund terminations contributed a further £128,000.

Turnover fell from £1.85m to £1.37m. After tax payments of £150,000 (£7,000 tax refund) the loss for the year was £126,000 (£46,000).

Geevor had a change of management last October and since the year-end has raised £2.87m, after expenses, from a rights issue.

It has made a number of acquisitions in the coal business in the UK and the US and recovery of tin from its mine in Cornwall has been re-started. Mr Grayson says several other opportunities are being reviewed, including a gold project in Ecuador.

Cowan de Groot

Cowan de Groot is raising £2.68m from property sales following the rationalisation of locations in its trading companies. The Wakefield House offices near the City of London, are being sold for £1.8m.

Clayform buys more Stead

Clayform, the property group which is waging a £108.1m bid battle for Stead & Simpson, shoe retailer and motor trader, announced yesterday that it had bought a further 4,000 ordinary shares in Stead. This is equivalent to 0.25 per cent, and means that Clayform has 568,888 ordinary – 35.6 per cent – in total. The property group has also built up a 10.7 per cent interest in the 'A' shares, although these have no voting rights.

Company Notices

SCI/TECH S.A.
Société Anonyme
2, boulevard Royal
L - 2953 Luxembourg
R.C. Luxembourg B - 20058

DIVIDEND ANNOUNCEMENT

SCI/TECH S.A. will pay a dividend of US$ 0.05 per share on June 30, 1988 to shareholders registered at close of business on June 24, 1988.

Shares will be traded ex-dividend after June 24, 1988.

The Board of Directors

Republic of Italy
ECU 300,000 000 Floating Rate Notes Due 1992

In accordance with the terms and conditions of the Notes, notice is hereby given that for the 3 months period from June 30, 1988 to September 30, 1988, the Notes will carry an interest of 6⅝ per cent per annum.

The relevant interest payment date will be September 30, 1988 and the coupon amount per ECU 10,000 nominal will be ECU 169.31 and per ECU 100,000 nominal will be ECU 1,693.06.

Banque Générale du Luxembourg
Société Anonyme
Agent Bank

THE KOREA EUROPE FUND LIMITED
INTERNATIONAL DEPOSITARY RECEIPT REPRESENTING 500 SHARES

Notice is hereby given to the shareholders that THE KOREA EUROPE FUND has declared a net interim dividend of US$ 0.03 per share payable to shareholders on the register at the close of business on 29th June, 1988.

As of 7th July, 1988, coupon nbr 1 of the International Depositary Receipt will be payable in US$ at the rate of US$ 15 per IDR of 500 shares, at the following offices of Morgan Guaranty Trust Company of New York:

BRUSSELS : Avenue des Arts, 35
LONDON : 1 Angel Court
FRANKFURT : 44, 46 Mainzer Land

and at the offices of Kredietbank Luxembourgeoise S.A., Boulevard Royal, 43, LUXEMBOURG.

This dividend will be paid in respect of the financial period of the company ending 30th June 1988. It is expected that no further or final dividend will be paid in respect of the financial period of the company, ending 30th June 1988.

MORGAN GUARANTY TRUST COMPANY OF NEW YORK
BRUSSELS OFFICE, AS DEPOSITARY

Contracts & Tenders

PREQUALIFICATION OF TENDERS

Country	:	Niger
Project	:	132 KV Interconnection Katsina (Nigeria) to Gazaoua, Maradi and Zinder (Niger)
Sector	:	Electric Power Transmission System
Financing Agencies	:	- European Investment Bank (EIB), ECU 14.3 millio - Federal Republic of Germany, Kreditanstalt Fur Wiederaufbau (KFW), DM 20 millions
Implementing Agency	:	NIGELEC - Societe Nigerienne d'Electricitie Niamey, Niger
Project Completion	:	1991 (anticipated project duration: three years)

PROJECT DESCRIPTION

The project consists of the supply and erection of a 132 KV Interconnection Transmission Line from Katsina in Nigeria to Gazaoua, Maradi and Zinder in Central East Niger, the supply and erection of three 132-20 KV substations located in Gazaoua, Maradi and Zinder in Niger and the expansion of the 132 KV switchyard at Katsina in Nigeria.

SCOPE OF WORK

A. *Transmission line work and supply (excluding supply of conductors and shield wire)*
Includes the supply and erection of about 276 km of 132 KV overhead transmission line from Katsina in Nigeria to Gazaoua, Maradi and Zinder in Niger.

B. Supply of conductors and shield wire
Includes the supply of approximately 1000 km of conductor type "WOLF" and 340 km of shieldwire.

C. Supply and erection of substations
Includes the supply and erection of three 132-20 KV substations at Maradi, Zinder and Gazaoua and the expansion of the existing switchyard at Katsina by one bay. The supply and erection of the telecommunication and protection systems are included.

CONSULTANT

Lavalin International
1100 West Blvd.
Rene Levesque
Montreal, Quebec
CANADA H3B 4P3

TERMS OF PREQUALIFICATION OF TENDERS

The applicants interested in prequalifying for one or more than one of the above noted lots should request the prequalifying document from Lavalin International between July 4 and July 14, 1988. The price, freight is included, is eighty US dollars (US $80).

Tendering for Lot A, noted above, to be substantially financed by EIB, will be open at least to companies from the European Economic Community (EEC) member countries or from countries who are signatories of the Lome III Convention.

Companies tendering for Lots B and C noted above, to be financed by KFW, must own manufacturing facilities for the principal components that are located within the Federal Republic of Germany or Berlin (West).

The prequalifying document, duly filled, must be received by Lavalin International in Montreal, Canada not later than August 15 1988.

LEUMI INTERNATIONAL INVESTMENTS N.V.
US $75 MILLION GUARANTEED FLOATING RATE NOTES EXTENDED AND DUE 1995

The interest rate applicable to the above Notes in respect of the six month period commencing 30th June 1988 has been fixed at 8¼% per annum.

The interest amounting to US $41.94 per bond of US $1,000 nominal to US $419.37 per bond of US $10,000 nominal to US $4193.75 per bond of US $100,000 nominal, will be paid on Friday, 30th December 1988 against presentation of Coupon No. 19.

BANK LEUMI TRUST COMPANY OF NEW YORK
Principal Paying Agent

bank leumi בנק לאומי

RIGGS NATIONAL CORPORATION
US$ 100,000,000
Floating Rate Subordinated Capital Notes 1996

In accordance with the provisions of the Notes, notice is hereby given that for the period 30 June 1988 to 30 September 1988, the Notes will carry a rate of interest of 7 11/16% per annum with a coupon amount of US$ 196.65.

Citibank
As Agent

Art Galleries

CRANE GALLERY 17a Sloane St. (1st Flr) SW1. 3 mins from Harrods. 235-2464. Humorous sports paints by Michael Lewis: cricket, tennis, football & golf. Also English & American 19th Cent naive art, samplers, quilts, furniture & decorative items. Daily 10-6, Sats 10-4

Personal

PUBLIC SPEAKING
Training and speech writing by award winning speaker. First lesson free. Tel 930 2197.

UK COMPANY NEWS

Albert Fisher continues Benelux acquisition trail with £7m deal

BY NIKKI TAIT

Albert Fisher Group, food distributor and processor, is continuing its Benelux acquisition trail with the purchase of Delby's, the largest distributor of imported food products in Belgium. Maximum consideration for the deal is BFr 455m (£6.9m).

The company – which has already spent well over £50m on five acquisitions in the Netherlands over the past eight months – said that Delbys would help its European food distribution operations.

Delbys imports and distributes upmarket branded and own-label food products, and has warehousing and storage facilities at Wilrijk, Antwerp. Its customers include supermarket chains and other retailers in Belgium and Luxembourg, and it also exports own-label goods throughout Europe.

Net assets at end-December stood at BFr 220m. During 1987, it made pre-tax profits of BFr 54m on sales of BFr 919m.

Fisher is paying an initial consideration of BFr 380m, of which BFr 223m will be in cash and the remainder satified by the issue of 846,106 Fisher shares. A deferred consideration, up to a maxium of BFr 75m, is payable if Delbys meets certain profit targets in the 24 months to end-December 1989. Of the additional payment, 85 per cent will be in cash and the remainder in Fisher shares.

'Modest' growth reported by Ashley

Restructuring was continuing at Ashley Industrial Trust which yesterday revealed a "modest improvement" in pre-tax profits in the six months to March 31.

The plywood products manufacturer lifted profits to £49,000 (£26,000) after an exceptional provision of £35,000 relating to compensation payments for loss of office. Turnover rose to £1.77m (£1.45m), while earnings per 5p share, after a nil tax charge, were unchanged at 0.35p.

Central overheads increased to £112,000 (£61,000).

Ashley also incurred an extraordinary debit of £46,000 due to legal and accountancy costs emanating from abortive acquisitions.

Shoralplan up and buys Gilken

BY GRAHAM DELLER

Shoralplan, commercial interior design and fitting group which joined the USM in May 1987, yesterday revealed a substantial acquisition together with a sharp expansion in interim profits.

The group has conditionally agreed to acquire Gilken Contracts, described as one of the largest independent shopfitting concerns in the UK.

The maximum purchase price is £6.7m – an initial consideration of £3.5m in new Shoralplan shares, £2.5m of which are to be offered to shareholders under a clawback arrangement – and a further £3.2m over three years dependent on Gilken profits.

Mr Roger Taylor, chairman, described the purchase as a "major step in the group's strategy of entering related markets and increasing regional coverage. This offers greater diversity of clients and wider business opportunities."

Gilken, based in Hertford and Nelson, Lancashire, began actively trading in 1975 and achieved pre-tax profits of £682,000 in 1987 on turnover approaching £11m. It mainly services multiple retail outlets, as well as hotels, department stores and the leisure industry.

In the six months to end-March, Shoralplan lifted taxable profits from £196,000 to £879,000 on turnover 42 per cent ahead at £4.56m. Earnings per 5p share rose to 6.2p (1.4p) and a maiden interim dividend of 2p is declared.

Mr Taylor said that current trading remained buoyant and upheavals in the City had not affected group profitability. Shoralplan had also expanded outside its traditional area and recently opened an office in London's West End.

The group proposes to change its name to Chestergate Group.

Builder Group offer subscribed 2.1 times

The offer-for-sale element of the issue for Builder Group, publishing company, was 2.1 times subscribed, writes Philip Coggan. Samuel Montagu was offering 1.2m shares at 135p each to the public, on top of a placing of 2.4m shares.

Applications will be allotted on the following basis: those who applied for between 200 and 800 shares will be allotted in full; 1,000 shares – 800; 2,000-4,000 shares – 75 per cent; 5,000 shares – 3,000; 6,000 shares – 3,500; 7,000-150,000 shares – 50 per cent; 200,000 shares – 90,000; over 200,000 shares – 100,000.

Dealings in the shares are expected to start on July 6.

Telecom Eireann reveals maiden profit

BY KIERAN COOKE IN DUBLIN

Telecom Eireann, Irish state telecommunications company, has announced its first ever profit, of I£17m (£14.6m) for 1987-88. The result compares with a loss of I£8m in the previous year.

Mr Michael Smurfit, chairman of Telecom Eireann and head of the Jefferson Smurfit paper and packaging group, said the result represented a major success for the company, which had been turned into a national asset with an international reputation.

Telecom Eireann came into being in 1984 when telecommunications was split from the state post and telegraph services. At that time losses were running at £100m a year. Company debt was still more than £1bn and debt servicing costs this year will amount to £120m.

Telecom Eireann had £99m accumulated losses to date. Mr Smurfit said the debt was now under control and the company could look forward to "total viability" within the next five years.

APPOINTMENTS

Changes at Warringtons

On completion of the acquisition by WARRINGTONS of a one-third interest in property company Ryhall, Mr R.J. McAlpine, chairman and chief executive of Alfred McAlpine, will join the board as non-executive deputy chairman; and Mr E.J. Nicol, managing director of Connaught, joins as an executive director. Mr C.J. Edwards, finance director of Alfred McAlpine, and Mr R. Dunn, chairman of Connaught, join as non-executive directors. Mr N.M. Ankers, responsible for finance and administration in the Warringtons Group, will be appointed finance director on completion. Warringtons is taking over the property activities of the Alfred McAlpine Group.

★

Mr Denis Foulger, of Metal Box, has been elected chairman of the BRITISH AEROSOL MANUFACTURERS' ASSOCIATION.

★

SCHERING HOLDINGS has appointed Dr David M. Foulkes as director of product safety, and Mr Ian D. McManus as director of production on the board of Schering Agrochemicals, Cambridge, from July 1. The parent company is Schering, West Germany.

★

Sir Robin Nicholson has been appointed chairman of the CONFEDERATION OF BRITISH INDUSTRY'S new technology policy committee. He is an executive director of Pilkington Brothers.

★

Mr Tim Bowler has been appointed to the main board of THE LEVITT GROUP as pensions director. He joined in 1986 after 18 years as assistant pensions development manager with Clerical Medical.

★

Mr David Cavers has been appointed chief commercial executive of PRIVATE PATIENTS PLAN. He was general manager of the commercial division.

★

KITCAT & AITKEN, a Royal Bank of Canada company, has appointed Mr Humphrey Harrrison as director, energy research. Mr Colin Mitchell joins on July 1 as a director, institutional equities, to assist coverage of the brewing, tobacco and leisure sectors.

★

J.H. MINET & CO has appointed Mr Frederick Reeve as divisional executive director of the engineers and contractors division.

★

Mr Alan Dunlop has joined the SAVE AND INVEST, Glasgow, board. He has been with the company since 1985.

★

Dr Edgar Mann has been appointed a non-executive director of ANGLO MANX BANK. He was a member of the House of Keys.

Mr John Hudson, Mr George Kirby, Mr Graham Marshall, Mr Sean McGrath and Mr Gary Gray have been appointed executive directors of the North American division of BAIN CLARKSON.

★

Mr R.T. Watson and Mr N.M. Watts have been appointed directors of FOREIGN & COLONIAL MANAGEMENT. Mr Watson, who was with the Universities Superannuation Scheme, will be responsible for the management of UK pension funds. Mr Watts, who joins from Citibank Investment Management Inc., will be responsible for managing the international institutional funds.

★

Mr Roger N. Gilbert has joined the board of GWR GROUP as a non-executive director. He is a director of Associated Newspapers Holdings which has a 7.8 per cent interest in GWR. Mr Barrie Giffard-Taylor has joined the board as finance director.

★

Mr John Whiter will become managing partner of the London office of NEVILLE RUSSELL from July 1. He will be supported by Mr Gerry Moscrop, who wil take over responsibility for all tax and related departments, and Mr John Mellows, who will be in charge of all other professional services.

★

R. WATSON & SONS, Reigate, consulting actuaries, has appointed Mr Finlay Ross, a partner, as chief executive of subsidiary Watson Pensions Management Service.

★

Mr John Lawson, formerly managing director of Alan Brady & Marsh, has been appointed head of advertising and joins the board at VALIN POLLEN. Mr Christopher Greening, a board member, has been promoted from deputy to creative director. He is succeeded as deputy by Mr Martin Cunningham, an art director and associate director. Mr Lucian Camp, who was creative director, has resigned.

★

Mr John F. Bookout III and Mr William J. Pade have been elected directors, and Mr William J. Heller has been elected a principal of McKINSEY & CO., INC.

★

Mr Neil Wise, formerly a joint managing director of the LESLIE WISE GROUP, has been appointed group chief executive, and Mr John Gowers, an executive director, becomes group managing director. Mr Keith Norman, who was vice-chairman of the group following the reverse take-over of Ladies Pride, becomes an executive director in charge of the Ladies Pride operation.

★

Mr Peter Smythe has been appointed managing director of ARC CONCRETE. He was managing director of ARC Conbloc.

UK ECONOMIC INDICATORS

ECONOMIC ACTIVITY-Indices of industrial production, manufacturing output (1980=100); engineering orders (1980=100); retail sales volume (1980=100); retail sales value (1980=100); registered unemployment (excluding school leavers) and unfilled vacancies (000s). All seasonally adjusted.

	Indl. prod.	Mfg. output	Eng. order	Retail vol.	Retail value*	Unem-ployed	Vacs.
1986							
4th qtr.	110.4	106.8	94	126.5	194.3	3,141	213.0
1987							
1st qtr.	111.1	106.2	93	125.4	158.9	3,078	210.4
2nd qtr	112.1	108.4	94	128.3	165.9	2,965	226.1
3rd qtr	113.8	111.2	92	131.8	171.8	2,827	241.3
4th qtr	115.0	112.5	92	133.4	210.8	2,658	262.1
July	113.1	110.2	94	131.0	173.6	2,876	235.2
Aug.	114.9	112.2	95	132.1	171.0	2,829	236.9
Sept.	113.5	111.1	94	132.0	170.9	2,773	246.6
Oct.	114.7	112.0	92	133.0	180.8	2,712	261.4
Nov.	116.0	112.7	93	133.6	198.3	2,649	268.2
Dec.	115.2	112.8	92	133.5	244.9	2,614	256.6
1988							
1st qtr.	114.1	112.5	94	135.2	173.3	2,534	247.6
Jan.	116.0	113.5	93	134.9	176.0	2,565	249.5
Feb.	112.6	110.9	94	135.3	168.5	2,533	247.9
Mar.	114.6	112.8	94	135.5	175.1	2,504	245.5
Apr.	116.3	114.8		136.4	190.4	2,453	253.7
May				136.7		2,416	255.5

OUTPUT-By market sector; consumer goods, investment goods, intermediate goods (materials and fuels); engineering output, metal manufacture, textiles, leather and clothing (1980=100); housing starts (000s, monthly average).

	Cnsmer goods	Invest goods	Intmd. goods	Eng. output	Metal mnfg.	Textile etc.	Housg. starts*
1987							
1st qtr.	107.6	100.2	117.9	102.6	114.5	108.0	17.5
2nd qtr	110.2	101.3	119.0	104.2	120.0	104.7	20.0
3rd qtr	112.7	104.6	118.6	107.7	120.9	106.8	19.6
4th qtr	113.3	107.5	119.0	110.2	121.7	105.3	17.0
July	112.3	102.0	118.7	106.0	121.0	107.0	20.9
Aug.	113.4	106.3	118.4	109.0	123.0	108.0	17.9
Sept.	112.3	105.5	117.8	108.0	119.0	108.0	22.1
Oct.	113.2	106.7	119.4	109.0	122.0	106.0	18.0
Nov.	113.4	107.3	118.1	110.0	120.6	105.0	18.8
Dec.	113.4	108.5	118.4	112.0	116.0	104.0	14.2
1988							
1st qtr.	113.6	104.3	118.7	107.6	126.1	104.0	19.8
Jan.	114.4	108.7	120.4	108.0	137.0	106.0	18.2
Feb.	112.3	103.4	118.8	106.0	123.0	104.0	20.3
Mar.	114.0	106.7	118.8	109.0	119.0	102.0	21.0
Apr.	112.9	111.4	120.0	113.0	133.0	102.0	19.7

EXTERNAL TRADE-Indices of export and import volume (1980=100); visible balance; current balance (£m); oil balance (£m); terms of trade (1980=100); official reserves.

	Export volume	Import volume	Visible balance	Current balance	Oil balance	Terms trade	Reserve US$bn
1987							
1st qtr.	129.5	133.6	-1,211	+974	+1,159	100.4	27.04
2nd qtr	126.8	141.1	-2,317	-218	+1,016	102.4	34.36
3rd qtr	130.6	151.1	-3,109	-619	+938	103.7	34.81
4th qtr	134.6	162.5	-2,989	-1,397	+1,073	103.9	44.33
July	130.1	149.8	-891	-263	+287	103.3	34.91
Aug.	127.6	164.8	-1,424	-687	+359	103.6	34.36
Sept.	134.1	149.7	-895	+36	+310	103.9	34.81
Oct.	131.6	148.4	-922	-393	+394	103.7	41.40
Nov.	135.4	154.3	-1,068	-825	+332	103.7	41.26
Dec.	137.1	164.9	-1,010	-490	+346	104.2	44.33
1988							
1st qtr.	126.0	149.2	-4,017	-2,776	+881	104.7	44.84
Jan.	126.4	151.8	-1,572	-1,159	+350	104.3	43.09
Feb.	123.6	147.4	-1,457	-1,044	+311	104.6	42.93
Mar.	128.1	146.0	-988	-572	+213	105.2	44.84
Apr.	134.2	155.8	-1,328	-728	+309	106.8	47.86
May	128.9	153.7	-1,705	-1,205	+221	107.2	48.53

FINANCIAL-Money supply M0, M1 and M3 (three months' growth at annual rate); bank sterling lending to private sector; building societies' net inflow; consumer credit†; all seasonally adjusted. Clearing Bank base rate (end period).

	M0 %	M1 %	M3 %	Bank lending £m	BS inflow £m	Cnsmer. credit† £m	Base rate %
1987							
1st qtr.	1.2	20.6	20.2	+6,733	1,465	+977	10.00
2nd qtr	3.3	29.7	29.3	+8,554	1,804	+1,068	9.00
3rd qtr	8.1	28.2	21.7	+11,508	1,211	+874	10.00
4th qtr	7.2	23.3	24.1	+11,185	3,007	+946	8.50
July	7.7	34.5	24.2	+4,831	347	+277	9.00
Aug.	7.1	23.5	21.9	+2,651	667	+259	10.00
Sept.	9.5	19.5	31.4	+4,324	197	+347	10.00
Oct.	6.9	36.7	28.8	[illegible]	[illegible]	[illegible]	[illegible]
Nov.	7.1	[illegible]	[illegible]	[illegible]	812	[illegible]	[illegible]
Dec.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1988							
1st qtr.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Feb.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Apr.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

INFLATION-Indices of earnings (Jan 1980=100); basic materials and fuels, wholesale prices of manufactured products (1980=100); retail prices and food prices (Jan 1987=100); Reuters commodity index (Sept 1931=100); trade weighted value of sterling (1975=100)

	Earn-ings*	Basic matls.*	Whsale mnfg.*	RPI*	Foods*	Reuters cmdty.*	Sterling
1987							
1st qtr.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2nd qtr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
3rd qtr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
4th qtr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Aug.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sept.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oct.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nov.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1988							
1st qtr.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Feb.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Apr.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

*Not seasonally adjusted.
†Net changes in amounts outstanding, excluding bank loans.

Financial Director

Engineering — £100m Turnover

Darchem Limited, the Engineering Division of William Baird PLC, is searching for a Financial Director to support the recently appointed Chief Executive.

The Company, which is based in the North East, has developed high standards of expertise in the Power, Aerospace, Automotive and Nuclear Industries.

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The remuneration package including car, normal fringe benefits and removal expenses will meet the expectations of successful and ambitious accountants in the age range 35 to 45, who possess the relevant industry experience.

Candidates who meet this exacting specification should write with full c.v. and salary details, quoting Ref AR/144, to: Brett Bull, March Consulting Group, 33 King Street, Manchester M2 6AA.

MARCH
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Probably in your 30's, you must be formally qualified, with successful experience of a similar position in a smaller company. Resilience and tenacity will match your undoubted ambition, and career progression is likely within the larger group.

An executive package is available for this position which is based in a very pleasant part of South Wales, and will include relocation expenses.

Male or female applicants please write with full personal and career details, and quoting ref: LS846, to Austin Knight Advertising UK Limited, Tricorn House, 51-53 Hagley Road, Edgbaston, Birmingham B16 8TP.

Please list separately any companies to which you do not want your application forwarded.

Austin Knight Advertising

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City — **£25,000 + car**
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C. London — **c£24,000**
British multi-national corporation with a turnover in excess of one billion pounds, is seeking an ambitious assistant group accountant. Candidates will be recently qualified accountants, with responsibility for financial reporting and development, computerised consolidations, results interpretation and acquisition investigations. Excellent prospects. Ref: GS 51.

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City — **c£23,000 + car + bfts.**
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Tel: 01-439 1701 Fax: 01-734 0275

Our client is a forward looking company based in Richmond, with offices in the USA, Canada and the West Indies. They are principally engaged in the international trade of semi-processed and processed food products between the west indies – USA – UK – Europe, and are also expanding their own private brand in the UK and Europe.

On their behalf we are looking for an Accounting Manager, age 25-35, to fulfil a number of functions. An Accountancy qualification is preferred, but not essential.

The successful candidate will assume all Accounting and Administration responsibilities. The position, however, calls for versatility; a knowledge of all aspects of L/Cs, shipping procedures/documentation, foreign exchange and computer literacy are necessary. The ability to negotiate agreements would be an asset. The applicant must have knowledge of the standard practices of trading, although previous experience in food products is not essential.

This is a challenging position with excellent career prospects. Salary negotiable.

Please contact Ken Jacob or Nicole Hyde.

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c.£25,000 + Company Car & Benefits

Our client is one of the major national chains of estate agents, with over 500 branches throughout the UK. They have achieved significant growth and market penetration and now plan to consolidate their geographical coverage and expand the wide variety of specialist services offered through their branch network.

This dynamic group requires a Financial Director for the Scotland and Northern Ireland company to take charge of the computerised accounting systems and to be responsible to the Company Managing Director for all financial and management reporting. The successful applicant will be a Chartered Accountant with a proven track record and at least 5 years' experience in a commercial environment. He/She must have excellent communication skills and be able to demonstrate positive drive and enthusiasm.

Applicants, quoting reference SHA 1021/DKH, should forward relevant personal and career details to: David K Hunter, Executive Recruitment Division, Stoy Hayward Associates, James Sellars House, 144 West George Street, Glasgow G2 2HG.

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c. £25,000 p.a. incl. Benefits

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This is a new appointment of partnership status involving full responsibility for the firm's administrative functions particularly those relating to accounts, human resources and technological development. An important aspect of the appointment will be to ensure effective communication and co-ordination between the firm's branch offices.

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The role will have a management accounting bias, but with responsibility for all financial accounting, as well as budgeting and evaluating new financial products and services. Part of a small Head Office team, you will be closely involved with the senior executives and will be expected to contribute to the successful growth of the company.

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Please send full details in confidence to the company's adviser: R. W. H. Lubbock, Lubbock Associates, 19 Adelaide Road, Walton-on-Thames, Surrey KT12 1NB.

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CONTROLLER

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International Appointments

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The successful candidate will be held responsible for: ◆ the general accounting activities of GERBER SCIENTIFIC UK Ltd.; ◆ maintaining accurate and up-to-date financial records of GERBER SCIENTIFIC UK Ltd.; ◆ producing timely financial statements.

Requirements: ◆ approximately 5 years' accounting experience; ◆ accounting background; ◆ familiarized with reporting and computerized accounting.

Moreover he/she will be in charge of the: ◆ daily imputation of all the transactions of the subsidiary; ◆ coordination and reconciliation of the ledgers GS-UK; ◆ coordination and justification of all the book accounts; ◆ responsible for the monthly closing process; ◆ preparation of the budget; ◆ follow-up of the variances between the performances and the budget; ◆ responsible for VAT declaration and tax declaration.

He/she will be reporting into the Company's Headquarters for Europe in Brussels.

We offer: ◆ salary commensurate with experience; ◆ challenging and rewarding job in a dynamic environment; ◆ the position is located at Bradford.

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Take up the challenge and give your job an international dimension.

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ECONOMISTS

to fill a vacancy in its Monetary and Economic Department

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Candidates should be around 30 years old, have good academic records and several years of working experience, preferably in the area of international finance. They must be able to draft clearly and rapidly in English. A working knowledge of French and/or German would be desirable.

Good salary, first-class pension and welfare schemes and many other ancillary benefits.

Please write, enclosing curriculum vitae, copies of testimonials and recent photograph, to the
Personnel Manager
Bank for International Settlements
4002 Basel, Switzerland

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If you would like to hear about the market in Australia for top quality Accountants, now is the time.

Max Payne of Payne Burt & Associates, a leading Melbourne accounting recruitment specialist, will be in London from 4th - 11th July for interviews and discussions. Please forward a detailed resume to:-

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5 St James Square,
London SW1Y 4ET

COMMODITIES AND AGRICULTURE

Lack of foreign exchange hits Zambian copper

ZAMBIAN copper production is being hit by a shortage of foreign exchange to buy vital spare parts, despite higher world prices which have pushed the industry back into profit, Reuter reports from Zambia.

The state-controlled Zambia Consolidated Copper Mines (ZCCM) produced 117,291 tonnes in the January-March quarter, some 10,000 tonnes less than in the same period last year. Industry officials estimate production will fall by one-fifth to 375,000 tonnes in the financial year to March 31 1989, from 470,000 tonnes the year before.

"Our problem is that we do not have sufficient foreign exchange to buy spares," Mr Sam Chabu, technical assistant to the general manager, said at Nchanga mine at Chingola in Copperbelt province. Nchanga, said to be the world's second biggest open-cast copper mine, is owned by ZCCM.

Soaring world copper prices helped ZCCM turn in a $45.3m net profit in its 1987/88 financial year after ending 1986/87 with a loss of $68.4m.

"We lay the golden egg for the nation but we cannot get all we require for our operations to continue efficiently and without disruption," an industry official said.

Non-Communist World Copper Production in 1986 ('000 tonnes)

Chile	1,400
US	1,151
Canada	768
Zaire	503
Zambia	495
Australasia	428
Peru	397
Philippines	217
South Africa	203
Mexico	182
Others	767
Total	6,511

Source: Shearson Lehman Brothers

Officials are concerned about the future unless more foreign exchange is ploughed back into mining development. ZCCM is allowed to keep just over one-third of its foreign exchange earnings.

A five-year rehabilitation programme that began in 1984 at a cost of $300m has helped replace or repair much equipment and raise local skills, but more funds are needed, a Western diplomat said.

Half the rehabilitation cost was met by the World Bank, the European Community and the African Development Bank, while the rest was to be met by ZCCM from its own finances.

Officials predict current prices will prove to be only a temporary windfall and Zambia will continue to find it difficult to repay its foreign debt of more than $800m.

Copper accounts for 90 per cent of foreign exchange earnings.

Diplomats say Zambia's economic problems, which include high inflation and unemployment and shortages of essential foods and goods, are likely to worsen unless it can arrest the fall in copper production.

A $250m tailings leach plant at Chingola is designed to halt the decline in production by sifting ore from waste materials, or tailings.

Officials hope the plant, which started up in 1984, will eventually be able to produce around 70,000 tonnes of copper, or double its end-1986 output. Production costs are only 40 per cent of those for traditional mining.

Transport has also been improved following upgrading of the Tazara railway, which carries about 35,000 tonnes of copper a month to the port at Dar es Salaam in Tanzania. Another 5,000 tonnes are shipped through the Mozambican port of Beira.

The price of rubber may hold up for rest of year

WORLD RUBBER prices are likely to remain above the International Natural Rubber Organisation's "must-sell" level of 242 Singapore/Malaysian cents per kilogram for the rest of this year, Mr Aldo Hofmeister, the organisation's buffer stock manager said yesterday, reports Reuter from Kuala Lumpur.

He also said that recent low sales from the buffer stock could pick up from tomorrow when he will be allowed to sell rubber for October delivery.

Inro's five-day average price was quoted on Tuesday night at 294.98 cents per kilogram – way above the level at which the buffer stock manager is obliged under Inro rules to sell rubber from its stockpile.

But the market has eased after a dramatic, speculative rise which saw the five-day average soar to 323.36 cents on June 6.

● In London this week the International Rubber Study Group released forecasts that natural rubber consumption would exceed production by 140,000 tonnes this year and by 125,000 tonnes next year. In 1987 the production shortfall was 55,000 tonnes.

Production in 1988 was put at 4,795,000 tonnes, up 90,000 tonnes from 1987, while consumption was projected to rise from 4,760,000 tonnes to 4,935,000 tonnes.

Canute James reports on the plight of the Caribbean ethanol industry

US demands force plant closures

THE CARIBBEAN ethanol industry, once regarded as an alternative outlet for the region's troubled cane sugar producers, is on the verge of collapse. Amid claims of increasing protectionism in the US, the main market for the region's ethanol, producers are shutting up shop.

In the face of increasing difficulty in gaining preferential access to the US market, Lica, a producer in Costa Rica owned by private and public interests, has closed down; a 40m gallons-per-year plant in Jamaica, owned by a subsidiary of the island's state-owned oil company, has been idle since January; and Tropicana Jamaica, a subsidiary of Tropicana Petroleum of California, which runs a 30m gallons-per-year plant, says it will have to close by the end of the year.

Behind the problems which have overtaken an industry which was regarded five years ago as part of the Caribbean's solution to the declining viability of its cane sugar production, are changes imposed by the US government, which has demanded that higher levels of locally-grown feedstock be used in the region's ethanol production before the product can enjoy duty free entry.

But Caribbean governments and companies complain that the conditions are impossible to meet, and that meanwhile domestic US ethanol producers are being given significant subsidies to increase production.

US demand is estimated at just under 1bn gallonsper year, most of which is used as a fuel additive to increase octane ratings.

Caribbean producers, who have been using cane sugar as the major feedstock for their plants, say existing and potential investments of about $100m are threatened by the US stance. New plants have been planned in the Bahamas, El Salvador and the Dominican Republic.

The decision by several countries to encourage investment in ethanol was stimulated by the Caribbean Basin Initiative, a 12-year trade programme implemented by the Reagan administration in January 1984, allowing countries designated by Washington to ship a range of products duty free to the US.

Ethanol, along with all but a handful of so-called sensitive products, was granted preferential entry as long as 35 per cent of the value added accrued to CBI beneficiary states. The producers met this criterion easily, using caneswhich were not needed for sugar production.

But efforts to provide markets for maize producers in the US Midwest were followed by representations to legislators in Washington, resulting in more difficult terms for Caribbean ethanol destined for the US market.

The 35 per cent regional added value criterion was raised to 60 per cent, and is to move to 75 per cent in January. Regional producers have been lobbying intensely in Washington, but so far without much success, to have the figure reduced by January. "If nothing happens by then we too will have to shut down," said Mr William Maloney, the chief executive of Tropicana Jamaica.

Caribbean government officials, who say the issue is being raised with the Reagan administration, argue that the region's new industry is paying the price of openly political efforts to keep the US ethanol industry alive. They claim that US domestic production of 800m gallons last year was possible only because of generous state and federal tax incentives. Left to fend for itself, they claim, the US ethanol industry would collapse.

While not denying that this very fate threatens the Caribbean industry if it does not have the crutch of easy preferential access to the US, producers say they need better breaks, in the form of reduced regional added value criteria, if they are to eventually stand on their own feet.

The region's producers have been accused in the past by lobbyists for the US industry of using feedstock from Spain and Brazil, not carrying out any substantial transformation, and consequently using the duty free facility for effectively dumping European and South American ethanol on the US market.

But the region's producers say there is not enough raw material in the Caribbean significantly to increase the use of feedstock to meet the new value-added criterion and to run plants at full capacity.

Of Tropicana's current output of 28m gallons per year, Mr Maloney says, feedstock available in the region can produce only 5m gallons annually. The company recently leased a 2,000-acre sugar cane farm and mill in Jamaica as part of its effort to increase local feedstock.

Petronol, the Jamaican state-owned producer, has leased the Libertad sugar estate and mill in Belize from Belize Sugar Industries. The mill is to be used for the production of alcohol which will be shipped to Jamaica for conversion to ethanol.

"It is indeed very unfortunate that after investors here have put money into an industry which was offered some protection before it could stand on its own, the US has destroyed all hope of a viable venture," complained one Costa Rican official.

The producers, however, are not abandoning the industry, and are hoping that government and private representations in Washington will bring more favourable terms for access to the US market. "We are looking for alternative markets and lobbying strongly in Washington," said Mr William Saunders, managing director of the Petroleum Corporation of Jamaica, which owns Petronol.

Inevitably the new barriers for the regional ethanol industry have resulted in some bitterness. Mr Maloney says: "It seems a clear breach of faith with the region and the emphasis of the Caribbean Basin Initiative. Either the administration did not believe or support the CBI in the first place . . . or it is out of touch with the reality of the situation."

UAE ignores oil output quota

THE United Arab Emirates (UAE) has carried out a threat to flout its quota set by the Organisation of Oil Exporting Countries (OPEC) and authorised companies to pump almost 20 per cent more oil in July, industry officials said yesterday, Reuter reports from Bahrain.

"This should bring prices down very quickly," said one trader. "It is yet another link in the chain of disarray which is creeping into OPEC."

The UAE Higher Council for Petroleum told companies in the main producing emirate of Abu Dhabi they could boost July output to 1.1m barrels per day (b/d) from about 930,000 in June.

With Dubai pumping 350,000 to 400,000 b/d, total UAE production would rise to 1.5m b/d – well above a quota of 948,000 b/d set by OPEC.

Oil officials said the move showed the UAE was intent on rejecting its OPEC quota and would put an additional 200,000 to 300,000 b/d on the already over-supplied world oil market.

Oil Minister Mr Mana Said al-Oteiba has repeatedly rejected the quota, claiming that with recoverable reserves of around 100bn barrels the UAE is second to Saudi Arabia and deserves a much higher output.

"The UAE completely rejects its OPEC quota of 948,000 b/d . . . the fair and official quota is 1.5m b/d," Mr Oteiba was quoted as saying in Morocco shortly after an OPEC conference in Vienna.

The UAE cabinet backed his demands on Monday, saying it reasserted the emirates' firm policy on output and prices as stated by Mr Oteiba.

OPEC members at their Vienna meeting that ended on June 14 agreed to extend the group's 15.06m b/d quota for the rest of the year – a compromise between Gulf states urging higher quotas and the majority, which wanted to curb output.

The secretary-general of the UAE Higher Council for Petroleum, Mr Soheil al-Mazrui, told companies in the state-owned Abu Dhabi National Oil Company (ADNOC) to raise July output to 1.1m b/d, officials said.

"They were told of their increased allowances for July two or three days ago," an official said.

Independent companies operating outside ADNOC were also given approval to produce up to 100,000 b/d more, which would boost Abu Dhabi's total output to 1.2m b/d.

The order was the first since the new petroleum council was formed early this month in a shake-up which oil industry officials said was designed to streamline UAE oil affairs and policy.

On June 5, UAE President Sheikh Zaid bin Sultan al-Nahayan abolished Abu Dhabi's Department of Petroleum, which was headed by Mr Oteiba, and dissolved ADNOC's board of directors.

Abu Dhabi had paved the way for its higher July output by increasing production in June by 9 per cent to 930,000 b/d from 850,000 in the second half of May.

The authorisation indicated that Abu Dhabi had found buyers for its increased volumes of crude, most likely through offering bigger discounts to its main Japanese customers.

"It won't be wrong to assume the Japanese want the oil because the prices are attractive compared with what Saudi Arabia and other Gulf countries are offering," a trader said.

"This will probably also put pressure on other Gulf producers to cut their prices," he added.

Another said that the UAE might be hoping OPEC would take its demands more seriously. "They are behaving just like Iraq," he said.

Iraq is not included in OPEC's current production pact as it rejects a quota less than that of its Gulf war foe, Iran.

● Coming on top of widespread reports that OPEC output has been creeping up towards 19m b/d in recent weeks, well above its official ceiling, the news from the UAE sent prices into a new slide.

Towards the close of European business, North Sea Brent Blend, the most widely traded international crude, stood 20 cents lower at $14.65 per barrel.

The leading US crude, West Texas Intermediate, was also down 20 cents at $15.70. The key Mideast crude, Dubai, fell 20 cents to $13.05 dollars per barrel.

New Zealand unearths the secret of cultivating truffles

BY DAI HAYWARD IN WELLINGTON

IT HAS been called the food of the gods. Black pearl, underground empress and divine tuber are other fanciful names that have been applied to that rare and expensive delicacy, the truffle.

Unfortunately since the turn of the century truffles have become even harder to come by and consequently even more expensive. French gourmets have bemoaned ever more loudly the increasing rarity of this highly-prized luxury as domestic production has fallen from 1,000 tonnes 90 years ago to less than 20 tonnes.

Now in New Zealand, where few people have even tasted the famous fungi, Ministry of Agriculture researchers are hoping to win the undying gratitude of truffle fanciers the world over by developing cultivated truffles for export.

If they manage to get the precious fungi to grow to order they will have succeeded where generations of Frenchmen failed.

Truffles grow up to a foot beneath the ground attached to the roots of oak or hazel trees. The fungus forms a sheath over the roots of the tree to which it is attached. It draws carbohydrates from the tree and, in return, provides its host with nitrogen and phosphorus. If this partnership is to provide mutual benefit, it is essential that the trees grow in the right type of soil.

Traditional truffle hunters use trained dogs or pigs – which seem to share the connoisseurs' delight in the fungus – to find them. But many French hunters were killed during the first world war, before they had a chance to pass on the jealously guarded secret locations of their truffle-infected trees. Thousands of trees were also destroyed during the two world wars.

With traditional supplies severely reduced the quest for the cultivated truffle took on a new urgency but it was not until the mid-1970s that scientists in France and Italy developed methods of inoculating the roots of host trees.

More recently Dr Ian Hall, a specialist in fungi working for the New Zealand Ministry of Agriculture research division, and who is himself partial to truffles, became convinced that New Zealand could produce a cultivated crop to replenish the supply for northern hemisphere fanciers.

Understandably perhaps, the French and Italians would not share the secrets of their methods with Dr Hall. But, undaunted, he studied the truffle growing areas in the Rhone Valley and other locations. He discovered the best growing areas had relatively infertile soil and occasional downpours in spring and summer.

He travelled throughout New Zealand seeking similar soils and spent years experimenting with different techniques of infecting suitable plants until he devised a method which he believes is commercially viable. This took three years of trial and error.

The spores which are attached to the tree roots are tiny black spheres about the size of a pinhead. They grow into a shiny ball with little projections – anything between the size of a ping pong ball and a tea cup.

Dr Hall and the ministry's research staff are just as secretive about their process as the French and Italians. He has however reached the stage where the ministry is now able to sell infected seedlings to selected would-be growers.

This year 2,500 infected seedlings up to two feet high have been planted under close supervision. Some dug up three months later showed the young truffles still alive, healthy and growing.

Not just anyone can place an order for seedlings guaranteed to be infected with the truffle fungus. The ministry will sell stock only after inspection of the farmer's land to ensure it has the required soil elements.

In fertile soil the tree does not need the fungus to provide phosphorus and the truffle will simply wither. The farmer also has to install suitable irrigation equipment to stimulate the heavy downpurs at the right time. Amateur connoisseurs cannot buy breeding stock because the ministry is determined to ensure that production is carried out efficiently under strict supervision until the scheme becomes a commercial success.

The first New Zealand truffles should be ready for harvesting in three to seven years' time and Dr Hall admits that it will be difficult to be patient until then.

Estimates suggest growers will harvest 40 kg of truffles per hectare after five years. Current prices in France are around NZ$800 (£320) per kilogram, which would give growers a handsome profit, despite the extensive preparation and waiting time before the fungi are ready for gathering and the cost of shipping.

The truffles would be shipped, chilled, to Europe, Japan and North America. Harvested in June, July and August they would be sold in their natural form, not preserved, in the northern hemisphere off season.

Last week Dr Hall dug up some of his early experimental plantings and 30 hand-picked guests sat down to a dish of truffles prepared by a leading chef in the city of Dunedin.

All except two enthused over them.

Dr Hall does not expect to have an on-going supply of cheap truffles at his disposal, however. "They will still be a fairly expensive dish and I won't be able to afford to develop the truffle habit," he said ruefully.

WORLD COMMODITIES PRICES

LONDON MARKETS

The price of gold bullion fell sharply yesterday, by $9.50 a troy ounce to $433.75, the lowest level since March 4 this year. Dealers cited falling commodity prices and the firm dollar as the main factors undermining the price of gold and other precious metals. They said the market now seemed to have steadied and there was good support seen for gold at about $432 an ounce. Meanwhile, market rumours that European zinc smelters have been approaching customers this week with offers of metal at below the European Producer Price (EPP) saw some nervous selling and liquidation on the London Metal Exchange. Cash zinc fell by £34 a tonne to £739 while three-months metal was down by £25 to £721.50. Two major zinc suppliers, Billiton and Preussag, both denied they were thinking about cutting their producer prices. Preussag said, however, that it felt the EPP would not go higher than the current $1,350 a tonne (equivalent to £794).

SPOT MARKETS

Crude oil (per barrel FOB)		+ or -
Dubai	$12.80-2.90z	-0.275
Brent Blend	$14.47-4.57u	-0.28
W.T.I (1 pm est)	$15.58-5.61z	-0.31
Oil products (NWE prompt delivery per tonne CIF)		
Premium Gasoline	$183-185	
Gas Oil (Soviet)	$130-131	+1
Heavy Fuel Oil	$65-67	
Naphtha	$149-151	
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$433.75	-9.50
Silver (per troy oz)♣	665c	-29
Platinum (per troy oz)	$551.25	-18.90
Palladium (per troy oz)	$124.50	-1.50
Aluminium (free market)	$2700	-120
Copper (US Producer)	114¾-118c	
Lead (US Producer)	36.0c	
Nickel (free market)	660c	-35
Tin (European free market)	£4170.0	+7.5
Tin (Kuala Lumpur market)	18.41r	-0.03
Tin (New York)	332.5c	-1.0
Zinc (Euro. Prod. Price)	$1337.5	
Zinc (US Prime Western)	65¾c	+¾
Cattle (live weight)†	108.57p	-3.28*
Sheep (dead weight)†	133.34p	-15.23*
Pigs (live weight)†	67.43p	-3.97*
London daily sugar (raw)	$316.0z	-10.0
London daily sugar (white)	$301.5z	-10.9
Tate and Lyle export price	£297.5	-3.5
Barley (English feed)	£105.5z	-1.0
Maize (US No. 3 yellow)	£140u	
Wheat (US Dark Northern)	£129.5u	-3.5
Rubber (spot)♥	78.00p	-0.50
Rubber (Aug)♥	84.00p	-0.50
Rubber (Sep)♥	84.25p	-0.50
Rubber (KL RSS No 1 July)	357m	-2
Coconut oil (Philippines)§	$660x	
Palm Oil (Malaysian)§	$585u	
Copra (Philippines)§	$430	
Soyabeans (US)	£241u	+15
Cotton "A" index	70.15c	-0.85
Woollops (64s Super)	654p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. u-July. x-Jul/Aug. z-Aug/Sep. v-Aug. y-Jun/Jul. q-Sep. w-Oct. †Meat Commission average fatstock prices. * change from a week ago ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.

COCOA £/tonne

	Close	Previous	High/Low	
Jly	930	935	943	929
Sep	956	954	964	948
Dec	967	967	973	957
Mar	988	987	991	977
May	1003	1002	1009	995
Jul	1022	1022	1027	1018
Sep	1041	1041	1043	

Turnover: 3300 (7662) lots of 10 tonnes. ICCO indicator prices (SDRs per tonne). Daily price for Jun 28: 1210.00 (1202.13). 10 day average for Jun 29: 1198.59 (1198.41).

COFFEE £/tonne

	Close	Previous	High/Low	
Jly	1070	1083	1098	1066
Sep	1090	1115	1117	1085
Nov	1106	1131	1131	1105
Jan	1133	1151	1150	1133
Mar	1155	1170	1169	1153
May	1170	1185	1181	1172

Turnover: 6072 (3784) lots of 5 tonnes. ICO indicator prices (US cents per pound) for June 28: Comp. daily 1979 115.13 (115.08); 15 day average 119.29 (119.76).

SUGAR $ per tonne

Raw	Close	Previous	High/Low	
Aug	285.00	295.00	298.80	275.00
Oct	270.40	280.40	275.80	260.00
Dec	260.00	280.40	273.00	273.00
Mar	269.40	273.00	287.80	260.00
May	258.80	270.00	268.00	248.00
Aug	255.80	268.00	262.00	252.00
Oct	256.00	260.00	264.00	253.00
White				
Aug	296.00	305.00	298.00	283.00
Oct	292.00	303.00	298.00	282.00
Dec	283.00	303.00		
Mar	283.00	293.00	283.00	265.00
May	293.00	290.00		

Turnover: Raw 5267 (16018) lots of 50 tonnes; White 1590 (3593).
Paris- White (FFr per tonne): Aug 1783, Oct 1755, Dec 1765, Mar 1770, May 1770, Aug 1780

GAS OIL $/tonne

	Close	Previous	High/Low	
Jul	130.00	129.50	132.00	128.75
Aug	128.75	129.25	131.75	128.00
Sep	129.75	130.50	132.75	129.00
Oct	131.75	132.25	134.50	131.50
Nov	133.25	133.25	136.00	133.00
Dec	134.50	135.00	137.25	134.00
Jan	135.00	135.50		

Turnover: 5777 (8819) lots of 100 tonnes

GRAINS £/tonne

Wheat	Close	Previous	High/Low	
Sep	105.75	106.50	105.90	105.75
Nov	108.40	108.05	107.85	108.40
Jan	110.95	110.60	110.25	108.50
Mar	111.80	113.50	113.20	111.00
May	114.10	115.75	115.25	113.25
Jly	116.30	117.85	117.35	115.90
Barley	**Close**	**Previous**	**High/Low**	
Sep	101.65	103.15	101.95	101.65
Nov	104.35	105.05	105.55	104.55
Jan	107.50	108.00	107.50	107.15
Mar	109.65	111.00	109.90	109.50
May	111.25	112.75	111.25	

Turnover: Wheat 381 (263), Barley 18 (131) lots of 100 tonnes.

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open Interest
Aluminium, 99.7% purity ($ per tonne)						Ring turnover 0 tonne
Cash	2640-60	2770-90		2690-710		
3 months	2580-60	2670-90		2610-30	2550-70	6,030 lots
Aluminium, 99.5% purity (£ per tonne)						Ring turnover 23,375 tonne
Cash	1485-90	1575-7	1455/1452	1505-10		
3 months	1445-50	1513-5	1500/1445	1465-8	1465-70	63,120 lots
Copper, Grade A (£ per tonne)						Ring turnover 34,800 tonne
Cash	1357-60	1370-3	1380/1375	1373-5		
3 months	1307-8	1322-3	1335/1305	1334-5	1314-5	69,561 lots
Copper, Standard (£ per tonne)						Ring turnover 0 tonne
Cash	1290-300	1280-90		1215-25		
3 months	1240-50	1240-50		1285-95		47 lots
Silver (US cents/fine ounce)						Ring turnover 0 ozs
Cash	658-61	689-92		665-8		
3 months	670-3	702-5		679-80	670-5	602 lots
Lead (£ per tonne)						Ring turnover 7,700 tonne
Cash	364-6	365-6		365-7		
3 months	379-80	377-8	389/380	380-90	382-4	13,142 lots
Nickel ($ per tonne)						Ring turnover 2,556 tonne
Cash	14800-100	15100-250	14400	14300-400		
3 months	13750-800	14500-600	14330/13800	13850-900	13900-4000	5,980 lots
Zinc (£ per tonne)						Ring turnover 28,250 tonne
Cash	735-40	772-4		745-50		
3 months	721-2	746-7	754/719	738-9	736-8	22,777 lots

POTATOES £/tonne

	Close	Previous	High/Low	
Nov	92.0	91.0	91.0	89.5
Feb	104.0	103.0		
Apr	136.8	137.3	135.5	135.3
May	148.0	147.5		

Turnover: 199 (500) lots of 100 tonnes.

SOYABEAN MEAL £/tonne

	Close	Previous	High/Low	
Aug	185.00	206.00	192.00	
Oct	188.50	207.00	193.50	183.50
Dec	187.50	209.00	192.50	186.00
Feb	193.00	211.00	196.00	

Turnover: 337 (490) lots of 100 tonnes.

FREIGHT FUTURES $10/index point

	Close	Previous	High/Low	
Jly	1205.0	1210.0	1208.0	1201.0
Oct	1344.5	1348.5	1349.0	1352.0
Jan	1369.0	1370.0	1370.0	1369.0
Apr	1405.0	1405.0	1405.0	
Jul	1235.5	1207.5	1203.5	
BFI	1204.0	1222.0		

Turnover: 181 (229)

WOOL

Wool prices in Australia at the final sales of the season show some signs of steadiness after easing gradually. The Australian wool corporations forthcoming floor price will be set somewhere around 680-900c, which compares with a closing level for the market indicator of just short of 1100c. International wool prices also depend on currency alignments and it is here that uncertainties are almost as great as those relating to the market itself, with the Australian dollar much stronger recently. Very welcome improvements are reported in new business on the Bradford top market. The impact of fashion as always leads to varied ideas between firms and sectors but there is no question of an all-round downturn in the UK nor any certainty that recent wool prices rises will prove unacceptable.

LONDON BULLION MARKET

Gold (fine oz)	$ price	£ equivalent
Close	433½-434	253½-254
Opening	437-437½	256-256½
Morning fix	434.9	254.745
Afternoon fix	433.25	253.948
Day's high	437½-438	
Day's low	432-432½	
Coins	**$ price**	**£ equivalent**
US Eagle	448½-451½	261-264
Maple leaf	448½-451½	261-264
Britannia	448½-451½	261-264
Krugerrand	432-435	253-255
1/2 Krug	230-238	134¼-139½
1/4 Krug	114-122	66½-71½
Angel	447-452	261-263¾
1/10 Angel	46-51	26¾-29¾
New Sov.	102-103	59½-60¼
Old Sov.	102-103½	59¾-60½
Noble Plat	574.6-581.1	336.15-340

Silver fix	p/fine oz	US cts equiv
Spot	392.55	670.50
3 months	402.45	684.40
6 months	412.45	696.10
12 months	433.80	728.00

LONDON METAL EXCHANGE TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	July	Sept	July	Sept
2500	151	226	61	187
2600	80	171	160	269
2700	38	121	267	367

Aluminium (99.5%)	Calls		Puts	
1400	159	270	44	175
1450	76	201	112	253
1500	23	148	216	345

Copper (Grade A)	Calls		Puts	
2150	187	213	13	120
2200	82	142	58	197
2250	26	90	151	293

US MARKETS

Better-than-expected rains in mid-Western U.S. coupled with the approach of first notice day in July contracts saw the grains and soybean complex sharply lower to limit down, reports Drexel Burnham Lambert. Fund buying was noted in the wheat, but on balance, long-liquidation kept the markets at or near the lows of the day. In addition, many traders were reluctant to establish new positions in advance of new 6-10, and 30-90 day forecasts expected later in the day. In the cattle and hogs, sharply higher cash prices saw nearby contracts rally, while spread adjustments depressed forward months. Bellies remained on the defensive, held down by stocks. The precious metals, especially silver, saw local, trade and commission house selling throughout the day which touched off stops. Losses were extended as the U.S. dollar strengthened towards the end of the day. Copper continued weak as traders rolled positions forward out of the July contract, although trade buying and local short-covering pared losses. Energy futures opened firm on constructive A.P.I. statistics, but reports that the Arab emirates would ignore quotas led to a sell-off in the crude and heating oil. Unleaded gasoline remained strong following the A.P.I. report which showed large-scale draw-down of stocks.

New York

GOLD 100 troy oz.; $/troy oz

	Close	Previous	High/Low	
Jul	435.7	438.0	435.0	435.0
Aug	436.3	443.5	440.0	432.3
Oct	443.4	445.6	444.0	437.0
Dec	448.6	450.7	449.8	442.5
Feb	453.9	455.8	452.0	448.5
Apr	459.2	461.3	458.2	453.5
Jun	470.1	472.2	0	0

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
Jul	550.0	561.8	554.5	538.0
Oct	556.7	567.0	562.5	545.0
Jan	563.7	574.5	570.0	553.0
Apr	570.7	581.8	575.0	561.0
Jul	578.2	589.0	581.0	581.0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
Jul	662.2	676.0	671.0	654.0
Aug	667.1	681.0	0	0
Sep	672.0	686.0	681.0	665.0
Dec	686.5	700.9	696.0	680.0
Jan	691.3	705.8	698.0	685.0
Mar	701.5	716.3	708.5	695.0
May	711.3	725.4	724.0	709.0
Jul	721.7	737.2	727.0	727.0
Sep	732.2	747.8	740.0	730.0
Dec	748.5	763.0	757.0	750.0

COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jul	105.50	105.40	107.00	102.50
Aug	103.00	103.00	0	0
Sep	99.50	100.00	99.60	97.20
Dec	92.50	92.60	92.40	90.50
Jan	89.85	90.10	0	0
Mar	85.00	85.50	85.00	83.50
May	82.75	83.00	83.00	82.00
Jul	81.25	82.00	0	0
Sep	79.25	80.00	79.00	79.50
Dec	78.00	78.25	78.00	78.00

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low	
Aug	15.49	15.78	16.05	15.48
Sep	15.68	15.98	16.25	15.65
Oct	15.82	16.16	16.37	15.80
Nov	15.98	16.28	16.49	15.90
Dec	16.12	16.37	16.60	16.02
Jan	16.15	16.42	16.53	16.15
Feb	16.30	16.48	16.53	16.10
Mar	16.30	16.48	16.44	16.15
Apr	16.36	16.56	16.44	16.15
May	16.30	16.56	16.38	16.30

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High/Low	
Jul	4175	4231	4280	4170
Aug	4205	4257	4310	4190
Sep	4285	4342	4385	4280
Oct	4375	4431	4475	4355
Nov	4465	4513	4550	4455
Dec	4555	4630	4640	4555
Jan	4585	4640	4660	4580
Feb	4445	4495	4510	4445
Mar	4380	4370	4435	4400

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
Jul	1536	1540	1548	1525
Sep	1550	1551	1565	1537
Dec	1545	1551	1562	1541
Mar	1569	1572	1581	1568
May	1585	1592	1597	1582
Jul	1609	1616	1617	1613
Sep	1633	1640	1630	1635

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Jul	130.60	132.30	132.05	130.75
Sep	131.45	133.24	133.00	131.30
Dec	131.49	134.25	134.00	131.45
Mar	131.65	134.80	134.10	131.60
May	132.00	134.63	134.25	132.00
Jul	133.00	135.25	134.75	133.00
Sep	135.00	135.87	135.00	135.00

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jul	12.65	12.62	12.70	11.75
Oct	11.95	12.35	12.15	11.40
Jan	11.00	11.25	0	0
Mar	11.35	11.49	11.60	10.95
May	11.36	11.38	11.48	10.95
Jul	11.30	11.37	11.40	10.77
Oct	11.20	11.30	11.30	10.70

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
Jul	63.70	66.42	64.70	63.60
Oct	63.05	65.05	63.05	63.05
Dec	61.70	63.70	61.70	61.70
Mar	62.60	64.50	62.50	62.50
May	62.65	64.85	62.80	62.85
Jul	63.00	65.00	62.90	62.90

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jul	187.90	186.90	188.00	186.30
Sep	183.20	181.90	183.60	181.30
Nov	176.25	174.80	176.50	175.10
Jan	169.50	168.70	170.00	169.00
Mar	168.25	167.90	168.75	168.00
May	167.25	168.75	167.25	167.00
Jul	167.25	168.75		
Sep	167.25	168.75		
Nov	167.25	168.75		

INDICES

REUTERS (Base: September 18 1931 = 100)

June 28	June 27	mnth ago	yr ago
2024.4	1983.8	1801.9	1614.2

DOW JONES (Base: December 31 1974 = 100)

Spot	139.10	141.57	132.55	127.04
Futures	142.08	144.57	134.13	125.46

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Jul	931/0	1014/4	965/0	928/0
Aug	965/0	1010/0	965/0	965/0
Sep	951/0	996/0	951/0	951/0
Nov	932/0	977/0	935/0	932/0
Jan	937/0	967/0	925/0	937/0
Mar	912/4	957/4	918/0	912/4
May	880/4	935/4	905/4	880/4
Jul	852/0	927/0	895/0	882/0

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
Jul	29.95	31.27	30.48	29.30
Aug	30.17	31.55	30.78	30.05
Sep	30.37	31.73	30.90	30.25
Oct	30.60	31.90	31.15	30.40
Dec	30.65	32.05	31.30	30.55
Jan	30.35	31.75	30.90	30.25
Mar	30.07	31.50	30.70	30.00
May	30.00	31.25	30.40	29.75

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
Jul	278.2	305.7	285.0	273.0
Aug	283.2	298.2	283.2	283.2
Sep	280.2	295.2	280.2	280.2
Oct	277.7	292.7	277.7	277.7
Dec	274.2	289.2	274.2	274.2
Jan	270.0	285.0	270.0	270.0
Mar	267.0	282.0	267.0	264.0
May	263.0	278.0	263.0	263.0

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
Jul	308/0	337/4	316/0	308/0
Sep	327/4	342/4	327/4	327/4
Dec	332/6	347/6	332/6	332/6
Mar	332/4	347/4	332/4	332/4
May	326/0	341/0	326/0	326/0
Jul	313/4	328/4	313/4	313/4
Sep	265/2	280/2	273/0	265/2

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
Jul	353/4	373/2	365/4	350/0
Sep	365/4	384/4	377/0	362/0
Dec	378/0	394/4	386/0	373/0
Mar	379/0	394/0	389/0	379/0
May	366/0	385/0	381/0	366/0
Jul	347/4	359/0	355/0	337/4

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Aug	64.82	64.62	65.52	64.75
Oct	65.55	65.22	66.08	65.45
Dec	68.45	68.17	68.92	68.20
Feb	70.67	71.62	71.50	70.30
Apr	73.15	74.05	73.70	72.55
Jun	71.15	72.30	71.75	71.00

LIVE HOGS 30,000 lb; cents/lbs

	Close	Previous	High/Low	
Jul	45.80	45.67	46.55	45.80
Aug	45.02	44.97	45.55	44.30
Oct	42.77	43.07	43.20	42.15
Dec	45.27	45.22	45.12	42.37
Feb	46.92	45.60	45.80	46.55
Apr	49.95	51.17	50.20	49.55
Jun	49.45	50.77	49.70	49.27

PORK BELLIES 38,000 lbs; cents/lb

	Close	Previous	High/Low	
Jul	37.07	37.65	37.85	36.35
Aug	37.90	36.35	38.55	36.85
Feb	61.87	63.57	61.57	61.57
Mar	61.05	62.05	61.57	61.05
May	60.60	62.40	61.10	60.50
Jul	61.12	63.12	61.50	61.12

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar at highest this year

INTERVENTION BY European central banks was described as only moderate yesterday, and the dollar continued to rise, climbing to its highest level this year against the yen and D-Mark.

Sentiment surrounding the dollar remained strong, in spite of growing nervousness about the US trade figures for May, to be published on July 15.

Dealers in New York said that in the present mood it made no sense to be short of dollars.

Lack of enthusiasm from the US Federal Reserve and the Bank of Japan to join in the intervention encouraged steady demand for the US currency.

The West German Bundesbank entered the market to sell dollars at around DM1.8230, according to dealers, but the action was described as relatively discreet, contrasting with the heavier intervention on Tuesday.

The Bank of Italy sold $5m at the Milan fixing, in a further token gesture, as part of the present co-ordinated sales of dollars by European central banks.

In Zurich the Swiss National Bank confirmed that it sold dollars, but declined to give details. The central bank in Austria was also mentioned in the market as joining in the efforts of European central banks to stem the dollar's rise.

The Bank of France appeared to stay out of the market, and in general yesterday's intervention was regarded as less than forceful.

In early New York trading there was no hard evidence the Federal Reserve intended to prevent the dollar from rising, but there were rumours of dollar sales against the D-Mark and yen. Earlier in the day the Japanese authorities created confusion with some apparently contradictory statements.

Mr Kiichi Miyazawa, Japanese Finance Minister, said Japan sees no need to follow the lead of European central banks in the foreign exchange markets.

On the other hand Mr Satoshi Sumita, Governor of the Bank of Japan, commented that Japan will consider measures to stabilise currencies if needed. He added that remarks by US officials did not imply full acceptance of a dollar rise.

In Tokyo the dollar fell back from the day's high of Y133, in nervous trading, but soon advanced again in London. It touched a peak of Y133.80, the highest level since last November, before closing at Y133.70, compared with Y130.90 on Tuesday.

In terms of the D-Mark the dollar climbed to DM1.8290 - the highest since early October last year - against DM1.8090 previously.

The dollar also rose to SFr1.5155 from SFr1.4960, and to FFr6.1625 from FFr6.0925.

According to the Bank of England the dollar's exchange rate index rose to 97.6 from 96.6.

Sterling suffered against the strong dollar, falling 1.25 cents to $1.7065, but the pound was generally firm against other major currencies.

There was continued nervousness about the future prospects for sterling, against the background of poor UK trade figures and fears of rising inflationary pressure.

This week's rise in bank base rates - the fourth in a month - appeared to stabilise the currency however and dealers pointed out that sterling is still higher against the dollar than nine months ago, and considerably higher against the D-Mark.

The pound rose to DM3.12 from DM3.11; to Y228.25 from Y225; to SFr2.5850 from SFr2.5725; and to FFr10.5175 from FFr10.4725.

On Bank of England figures sterling's exchange rate index rose 0.4 to 75.5.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu June 29	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	43.4814	+2.41	+1.09	±1.5344
Danish Krone	7.85212	7.88578	+0.43	-0.89	±1.5404
German D-Mark	2.05853	2.07645	+0.87	-0.45	±1.0981
French Franc	6.90403	6.99838	+1.37	+0.05	±1.3674
Dutch Guilder	2.31943	2.34244	+0.99	-0.33	±1.5012
Irish Punt	0.768411	0.772935	+0.59	-0.73	±1.6684
Italian Lira	1483.58	1539.79	+3.79	+3.05	±4.0752

Changes are for Ecu, therefore positive change denotes a weak currency
Adjustment calculated by Financial Times.

£ IN NEW YORK

June 29	Latest	Previous Close
£ Spot	1.7065-1.7070	1.7085-1.7095
1 month	0.24-0.23pm	0.25-0.24pm
3 months	0.85-0.82pm	0.86-0.84pm
12 months	2.90-2.80pm	2.95-2.85pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

POUND SPOT- FORWARD AGAINST THE POUND

June 29	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.7055-1.7168	1.7060-1.7070	0.27-0.24cpm	1.79	0.84-0.80pm	1.92
Canada	2.0745-2.0825	2.0785-2.0795	0.14-0.07cpm	0.61	0.29-0.19pm	0.46
Netherlands	3.50¼-3.52¼	3.51½-3.52½	2-1½cpm	5.97	5-4½pm	5.40
Belgium	65.00-65.40	65.20-65.30	23-12cpm	3.22	66-55pm	3.71
Denmark	11.80¾-11.86½	11.83¼-11.84¼	1⅞-¾orepm	1.14	5¼-3¼pm	1.48
Ireland	1.1570-1.1630	1.1600-1.1610	0.16-0.23pdis	-2.02	0.50-0.65dis	-1.98

CURRENCY RATES

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

CURRENCY MOVEMENTS

EURO-CURRENCY INTEREST RATES

OTHER CURRENCIES

Iran	119.50*	69.50*
Korea(Sth)	1238.90-1250.10	724.90-731.50
Kuwait	0.48230-0.48280	0.28160-0.28170
Luxembourg	65.20-65.30	38.20-38.30
Malaysia	4.4625-4.4740	2.6090-2.6120
Mexico	3905.65-3917.55	2280.00-2286.00
N. Zealand	2.5380-2.5420	1.4815-1.4830
Saudi Ar.	6.4250-6.4310	3.7510-3.7520
Singapore	3.5015-3.5070	2.0455-2.0475
S. Af (Cm)	3.9660-3.9770	2.3215-2.3230
S. Af (Fn)	5.6605-5.7555	3.3060-3.3615
Taiwan	49.15-49.40	28.80-28.95
U.A.E.	6.2905-6.2965	3.6725-3.6735

*Selling rate

EXCHANGE CROSS RATES

DM	0.321	0.547	1.	73.17	3.372
YEN	4.380	7.477	13.67	1000.	46.08
F Fr.	0.951	1.623	2.966	217.0	10.
S Fr.	0.387	0.660	1.207	88.32	4.070
H Fl.	0.284	0.485	0.886	64.86	2.989
Lira	0.432	0.738	1.348	98.66	4.546
C $	0.481	0.821	1.501	109.8	5.060
B Fr.	1.533	2.616	4.782	349.9	16.12

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

MONEY MARKETS

UK rates stay firm

INTEREST RATES in London continued to point towards a further half point rise in bank base rates to 10 p.c. yesterday. Despite sterling's continued recovery, three-month interbank was quoted at 9⅞-9{11/16} p.c. compared with 9¾-9⅝ p.c. on Tuesday.

Traders remained concerned that the inflationary implications of recent economic data, highlighted by a record current account deficit in May, would require a further rise in interest rates. If nothing else, this would at least help to restore international confidence in sterling.

UK clearing bank base lending rate 9½ per cent from June 28

Overnight interbank money traded between 10 p.c. and a low of 7 p.c.

The Bank of England forecast a surplus of around £250m, with factors affecting the market including repayment of any late assistance and bills maturing in official hands, together with a take up of Treasury bills draining £131m. There was also a rise in the note circulation of £115m. These were more than offset by Exchequer transactions, which added £485m and banks' balances brought forward £35m above target.

The forecast was revised to a flat position, and the Bank gave no assistance in the morning. A further revision took the forecast to a surplus of around £100m and the Bank soaked up funds by selling £75m of Treasury bills at 7 p.c., maturing today.

The West German Bundesbank is likely to increase its discount rate to 3 p.c. at today's meeting of the central council. This is the majority view of market traders in Frankfurt. The note of caution struck by Mr Claus Koehler, a member of the Bundesbank Board, when he said that a rise was "not a foregone conclusion" was not generally heeded.

The authorities probably feel that a weak D-Mark, rising money supply and growing capital outflows, are sufficient reason to risk any possible criticism from other G7 nations.

In the money market call money continued to climb, touching 4.60 p.c. from 4.50 p.c. On Tuesday commercial banks borrowed an estimated DM600m through their Lombard facility to meet half-year end tax payments and a further DM12bn drained yesterday by pension payments. Liquidity has also been squeezed by the Bundesbank's continued intervention in currency markets, selling dollars and drawing D-Marks out of the system.

FT LONDON INTERBANK FIXING

MONEY RATES

LONDON MONEY RATES

FINANCIAL FUTURES

Gilt prices lose ground

TUESDAY'S POSITIVE reaction in long gilt futures to a half point rise in UK base rates tended to wear off in yesterday's Liffe market. Prices were marked down as investors decided - on overnight reflection - that another rise in rates may be needed to control inflationary trends.

Consequently the September price slipped from an opening level of 94-12 to a low of 93-29, before finishing at 93-31, down from Tuesday's close of 94-13.

Three-month sterling deposits were confined to a relatively narrow range. Investors were reluctant to take out positions either way, given the uncertainty about when or whether base rates would be increased again. Trading volume suffered as a result, with less than 9,000 lots changing hands, compared with nearly 20,000 on Tuesday. The September price opened lower at 89.86 from 89.91 previously and touched a low of 89.77 before recovering to finish at 89.87.

US Treasury bonds moved higher in line with a firmer dollar, but as the US unit retreated in the US, so early trading in Chicago pushed values lower. A 0.1 p.c. fall in US leading economic indicators was overlooked, as attention continued to focus on the dollar.

Trading in Liffe saw the September price move up to 88-22 from 87-27 on Tuesday before slipping back in Chicago to 88-05.

LIFFE LONG GILT FUTURES OPTIONS

Strike Price	Calls-settlements Sep	Calls-settlements Dec	Puts-settlements Sep	Puts-settlements Dec
88	602	612	4	10
90	407	429	9	27
92	221	262	23	60
94	61	151	63	149
96	21	62	223	260
98	6	30	408	428
100	2	13	604	611

Estimated volume total, Calls 2688 Puts 4166
Previous day's open int. Calls 25962 Puts 35937

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike Price	Calls-settlements Sep	Calls-settlements Dec	Puts-settlements Sep	Puts-settlements Dec
82	655	636	11	50
84	502	505	22	119
86	325	351	45	201
88	202	248	122	262
90	106	159	226	409
92	34	118	354	532
94	14	53	534	703

Estimated volume total, Calls 86 Puts 203
Previous day's open int. Calls 481 Puts 958

LIFFE FT-SE INDEX FUTURES OPTIONS

Strike Price	Calls-settlements JUL	Calls-settlements AUG	Puts-settlements JUL	Puts-settlements AUG
17000	1723	1750	3	30
17500	1236	1302	16	82
18000	790	907	70	187
18500	430	585	210	365
19000	192	346	472	626
19500	68	186	848	966
20000	19	91	1299	1371

Estimated volume total, Calls 0 Puts 0
Previous day's open int. Calls 3 Puts 50

LIFFE £/$ OPTIONS

LIFFE EURODOLLAR OPTIONS

LIFFE SHORT STERLING

PHILADELPHIA SE £/$ OPTIONS

LONDON SE £/$ OPTIONS

LONDON (LIFFE)

CHICAGO

CURRENCY FUTURES

EUROPEAN OPTIONS EXCHANGE

TOTAL VOLUME IN CONTRACTS

A=Ask B=Bid C=Call P=Put

BASE LENDING RATES

Cl Bank Nederland	9½	Lloyds Bank	9½
Central Capital	9½	Meghraj Bank Ltd	9½
● Charterhouse Bank	9½	Midland Bank	9½
		Mount Banq Corp.	9½

Safewise 6.66%. Top Tier-£10,000+ instant access 8.53% § Mortgage base rate § Demand deposit 5.91%. Mortgage 9.125% - 9.5%

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

Balanced	419.4xd	446.7	-4.9	3.23	
Accumulator	647.2	689.3	-7.5	3.16	
Income Trusts					
American Income	28.8	30.4	+0.4	4.24	
High Income	299.2	318.6	+3.7	4.65	
Equity Income	173.0	184.2	+1.6	4.24	
High Yield	175.4	186.8	+2.0	4.99	
Govt Securities	30.0	31.0		8.05	
International Trusts					
Amer Spec Sits	62.2	66.2	+0.8	1.50	
European Growth	18.0	19.2	+0.3	1.30	
International	91.9	97.9	+0.6	1.01	
Japan	139.47	148.5	+0.3	0.01	
Pacific	219.9xd	234.2		0.20	
Secs of America	187.1xd	199.3	+3.3	1.01	
W'wide Asset Val	26.7	28.4	+0.1	1.06	

Bishopsgate Progressive Mgmt Co
15 St James' Place, London SW1A 1NW 01-493 8111

Progressive Inc	5	£15.31	£15.65	16.52		1.29
Progressive Acc	5	£21.49	£21.97	23.19		1.29
International Inc	5	£15.93	£16.25	17.15	+0.26	1.67
International Acc	5	£19.76	£20.15	21.27	+0.32	1.67
Can & Foreign Inc	5		186.2	196.5		0.93
Can & Foreign Acc	5		207.5	219.0		0.93
Special Sits Inc	5		164.1	173.7		2.36
Special Sits Acc	5		164.1	173.7		2.36

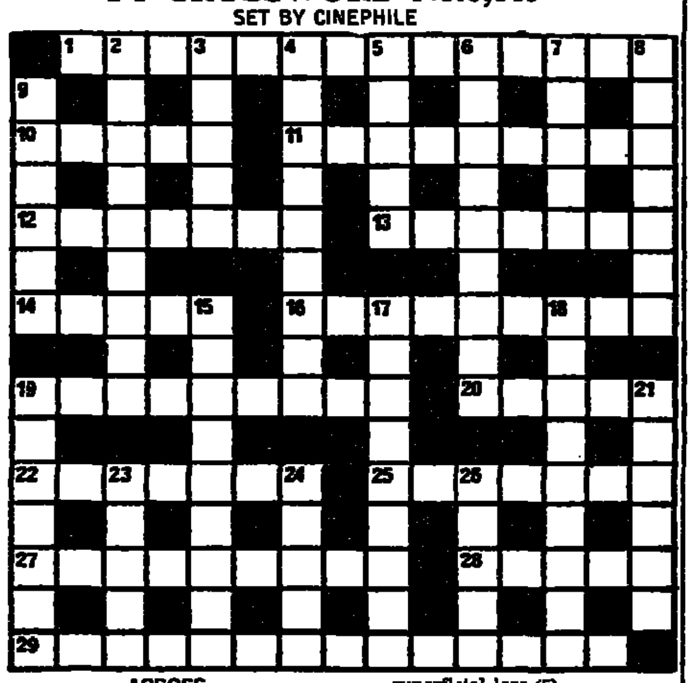
Brewin Dolphin Unit Tst Mgrs Ltd
5 Giltspur St, London EC1A 9DE 01-248 4400

Brewin Capital	192.0	204.3		1.53
Brewin Dividend	101.8	108.3		5.63
Brewin Int Gth Inc	216.9	230.8		1.55

[illegible]

JOTTER PAD

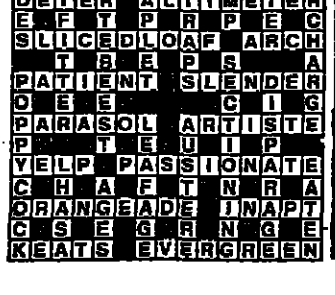
FT CROSSWORD No.6,669
SET BY CINEPHILE



ACROSS
1 Wren of old maybe revealed sex-change queen's immorality with female (2-7,5)
10 Arterial road gets a gold with thanks (5)
11 Diabolical driving requires something mouldy (5,4)
12 Lower of French papers (7)
13 Hoodlum's defaced Royal Engineer's tomb (7)
14 Made fun of conductor, we hear (5)
16 Out of sight by position or nature? (9)
19 An egg sure to break: lubricator wanted (6,3)
20 Conductor of courage? (5)
22 One smiles crookedly, having no goal (7)
25 Beef for the winning team (7)
27 Operated by fluid: Curly had one version (9)
28 Puss in pool (5)
29 Chose and changed uniform paid for at the door (4,2,8)

DOWN
2 Cactus may be prey the ox wanted (9)
3 Remove point under periods (5)
4, 5 Cosmetic the cat's been at? (9,5)
6 East Anglian catchment area for ablutions (9)
7 Doctor's last month to suffer superficial loss (5)
8 Beech, for example? It could be true with 10 (3,4)
9 American oath turns up: it should be shot (3,3)
15 Ruffian's improper speed on bad road (9)
17 It sounds almost excessively enthusiastic about hunting (9)
18 Titled man comes up in swap for lawyer (9)
19 Vivid piece of writing? (7)
21 Boy and girl with diary (6)
23 Old king, alchemist at heart, like? (5)
24 Thick but financially OK? (5)
26 Russian city where pianos make a tactful sound, we hear! (5)

Solution to Puzzle No.6,668



GUIDE TO UNIT TRUST PRICING

The data included under the Authorised section of the FT Unit Trust information pages is being expanded to improve the service to readers and to conform with new legislation.

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ♥ - 0001 to 1100 hours; ♣ - 1101 to 1400 hours; ♦ - 1401 to 1700 hours; ♠ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that prices are set on a historic basis. This means that, unless there has been an intervening portfolio revaluation, investors can normally buy and sell units today at the prices appearing in the newspaper which have been set on the basis of yesterday's asset value.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.
Other explanatory notes are contained in the last column of the FT Unit Trust information pages.

FT UNIT TRUST INFORMATION SERVICE

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Target Trust Mngrs Ltd (1200)H						
Target Hse, Gatehouse Rd, Aylesbury Bks 0296 394000						
American Eagle	0		66.3xd	70.4	-0.4	1.17
Australia	0		8.0	8.5	-0.1	0.10
Commodity	0		82.2	87.6	-0.3	1.03
Convertible	0		149.0	158.3	+1.3	6.52
Equity	0		145.7xd	155.3	+1.5	3.16
Euro Spec Sits	0		80.3	85.5	+0.5	1.27
Financial	0		31.3	33.3	+0.2	1.89
Global Opps Inc	0		58.5	62.0	-1.1	1.40
Global Opps Acc	0		58.5	62.0	-1.1	1.40
Gold Income	0		55.2	58.7	-0.3	0.85
Gold Acc	0		101.7	108.2	+0.8	0.85
Income	0		107.0xd	113.9	+1.7	4.74
Japan	0		120.7	128.1	-1.0	0.10
Pacific Income	0		117.2	124.7	-0.2	0.85
Pacific Re Inv	0		145.0	154.4	-0.3	0.85
Preference Share	0		25.6	27.3	-0.1	6.69
Special Sits	0		101.3	107.7	+0.4	0.58
Technology	0		43.9	46.8	+1.1	0.10
UK Capital	0		90.0	95.8	+0.2	1.27
World Income	0		52.2	55.5	-0.8	5.11
Worldwide Capital	0		148.0	157.5	+1.0	1.13
Equity Exempt	0		111.6xd	118.9	-	1.53
Equity Exempt Acc	0		212.7	226.4	-	1.53
Templeton Investment Mngmt						
20 Cornhill Avenue, EC2R 7PA. 01-588 6064						
Intl Pen & Ch'ties			90.9xd	94.7	+1.3	-
Thornton Unit Managers Ltd						
33 Cavendish Sq., London W1M 7HF 01-493 7262						
Dealing 01-493 8545						
American Opps			40.0	42.7	-1.2	1.29
(Accum Units)			40.9	43.6	-1.2	1.29
European Opps			42.8	45.6	+0.2	1.04
Far Eastern Opps			85.0	90.7	-0.8	0.45
(Accum Units)			85.3	91.0	-0.8	0.45
Golden Opps			35.7	38.1	.....	1.17
Intl Hi-Yield			45.5	48.5	+0.3	4.06
Japanese Opps			58.8	62.7	+0.1	0.90
(Accum Units)			58.8	62.7	+0.1	0.90
Kangaroo			31.1xd	33.2	-0.6	1.36
Oriental Income			29.2	31.1	+0.2	1.99
(Accum Units)			29.7	31.7	+0.2	1.99
Pacific Technology			55.2	58.9	+1.6	0.00
(Accum Units)			55.2	58.9	+1.6	0.00
Tiger			85.0	90.7	-0.1	0.48
(Accum Units)			85.8	91.5	-0.1	0.48
UK Hi-Yield			41.1xd	43.9	-0.2	8.53
(Accum Units)			44.5xd	47.4	-0.2	8.53
UK Opps			45.9	49.1	+0.5	1.94
(Accum Units)			47.6	50.9	+0.5	1.94
Touche, Remnant Unit Tst Mngt Ltd						
Mermaid Hse, 2 Puddle Dock, EC4 01-248 1250						
TR American Gwth & H.	0		38.40	40.80	+0.5	1.55

INSURANCES

	Bid Price	Offer Price	+ or -	Yield Gross
AA Friendly Society				
(Investment Mngt M & G Inv Mngt Ltd)				
AA Friendly Sy Jun 10	-	139.4	.....	-
Abbey Life Assurance Co Ltd				
80 Holdenhurst Road, Bournemouth 0202 292373				
Prop. Ser 1	241.7	254.5	-	-
Equity Ser 1	115.6	121.7	+1.2	-
Prop. Acc. Ser 2	350.0	368.5	-	-
Equity Ser 2	131.3	138.3	+1.5	-
Selective Acc.	284.0	299.0	+1.5	-
Prop Ser 4	275.5	290.0	-	-
Equity Ser 4	133.4	140.5	+1.1	-
Fixed Int. Ser 4	209.7	220.8	+0.4	-
Indexed Inv Ser 4	120.0	126.4	+0.1	-
American Ser 4	265.7	279.7	+5.5	-
High Inc. Ser 4	377.6	397.5	+4.0	-
Japan Ser 4	274.5	289.0	-3.9	-
Man Ser 4	373.1	392.8	+1.8	-
Money Ser 4	216.0	227.4	-	-
European Ser 4	90.8	95.6	-1.1	-
Pension Funds				
Property	464.7	489.2	-	-
Equity	948.1	998.0	+9.7	-
Selective	302.4	318.4	+1.8	-
Managed	679.0	714.8	+4.4	-
Security	395.6	416.5	-	-
Fixed Int.	233.9	246.3	-0.5	-
European	122.5	129.0	-2.2	-
American	219.8	231.4	-6.2	-
Japan	293.1	308.6	-8.1	-
Indexed	127.3	134.0	+0.1	-
International	144.2	151.8	+1.0	-
Ethical	101.1	106.5	+1.1	-
High Income	100.9	106.3	+1.3	-
Abtrust Management Ltd				
20, Chiswell St, London, EC1Y 4TY 01-374 6801				
Managed Growth	302.74	318.68	.....	-
Managed Income	134.91	142.02	.....	-
AEtna Life Insurance Co Ltd				
401 St John St, London EC1V 4QE 01-833 2303				
Life Funds (Accumulation Units)				
Squirrel	11.75	12.37	+0.01	-
Bear	12.18	12.83	+0.08	-
Owl	15.11	15.91	+0.06	-
Bull	13.58	14.30	-0.08	-
Stag	14.07	14.82	-0.12	-
Gilt-Edged		11.98	+0.02	-
Deposit		10.80	+0.01	-

[illegible]

British [illegible]

CCL As[illegible]

Canada [illegible]

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

Pioneer Mutual Insurance Co Ltd
16 Crosby Rd, N Waterloo, Liverpool 051-928 6655

	Bid Price	Offer Price	+ or -	Yield Gross
Managed Fund	269 1	283 3		-
Man Pens Inc & Cap Fds	344 7	362.9	+0.1	-
Money Fund	112.9	118 9	-	-
Pens Mngd Fd (Init)	90 1	94 9	-1.1	-
Pens Mngd Fd (Acc)	103 2	108 7	+1.3	-
Pens FT30 Fd (Init)	129.0	135 8	-0 6	-
Pens FT30 Fd (Acc)	147 8	155 6	-0.4	-
Pens O'seas MgFd (Init)	59 8	63 0	-1 1	-
Pens O'seas MgFd (Acc)	68.5	72 2	+1.3	-
Pens Fxd Int Fd (Init)	106.2	111.8	-1 2	-
Pens Fxd Int Fd (Acc)	121 7	128 2	-1.1	-
Pens Deposit Fd (Init)	101.5	106 9	+0 1	-
Pens Deposit Fd (Acc)	116.3	122.5	-0.2	-

Premium Life Assurance Co Ltd
37-39, Perrymount Road, Haywards Heath 0444 458721

	Bid Price	Offer Price	+ or -	Yield Gross
American	101 0	107.0	-2.0	-
Building Soc. Fd.	161 0	170 0		-
Balanced	244 0	257 0	-1 0	-
Deposit	161 0	170 0		-
European	129 0	136 0	-2.0	-
GT Managed	152 0	160 0		-
Gartmore Mngd	101 0	107.0	-1.0	-
German	90 0	95 0	-	-
Gilt	168 0	177.0		-
High Inc.	115 0	122 0		-
International Equity	156 0	165 0		-
Japan	219 0	231 0	-2.0	-
Managed	55.0	58 0		-
Property	256 0	270 0		-
R. W. Imperial Gold	133 0	140 0		-
UK Equity	321.0	338.0	-1.0	-
Pension Funds				
American	121 0	128 0		-
Building Soc Fd.	153 0	162 0		-
Balanced	187 0	197 0		-

[illegible]

MANAGEMENT SERVICES

[illegible]

OFFSHORE AND OVERSEAS

UK LISTED

[illegible]

OFFSHORE INSURANCES

[illegible]

FT UNIT TRUST INFORMATION SERVICE

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

1988 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
98[illegible]	83[illegible]	Redemption 3pc 1986–96	98[illegible]	–[illegible]	3.09	7.23
100[illegible]	99[illegible]	Treas. 9½pc '88	99[illegible]		9.51	9.80
102[illegible]	100[illegible]	Treas 11½pc 1989	101[illegible]	–[illegible]	11.38	9.63
101[illegible]	99[illegible]	Treas 9½pc Cnv 1989	99[illegible]		9.51	9.63
97[illegible]	95[illegible]	Treas 3pc 1989	96[illegible]		3.10	6.74
102[illegible]	100[illegible]	Treas 10½pc 1989	100[illegible]	–[illegible]	10.43	9.72
102	100[illegible]	Exch. 10pc 1989	100[illegible]		9.98	9.71
103[illegible]	101[illegible]	Exch 11pc 1989	101[illegible]	–[illegible]	10.85	9.77
97[illegible]	95[illegible]	Treas 5pc 1986–89	96	–[illegible]	5.20	8.19
104[illegible]	100[illegible]	Exch 10¼pcCv '89	100[illegible]	–[illegible]	10.16	9.53
107½	104[illegible]	Treas 13pc 1990‡‡	104[illegible]		12.44	9.76
104[illegible]	101[illegible]	Exch 11pc 1990‡‡	101[illegible]		10.81	9.77
107[illegible]	103[illegible]	Exch. 12½pc 1990	104[illegible]		12.00	9.78
93[illegible]	91[illegible]	Treas 3pc 1990	91[illegible]		3.28	7.71
99[illegible]	97[illegible]	Treas 8¼pc 1987–90‡‡	97[illegible]	–[illegible]	8.42	9.42
102[illegible]	98[illegible]	Treas. 8pc Cv 1990 ‡‡	98[illegible]	–[illegible]	8.16	9.10
103[illegible]	100[illegible]	Treas. 10pcCv 1990	100[illegible]		9.96	9.78
91[illegible]	88[illegible]	Exch 2½pc 1990	88[illegible]	–[illegible]	2.81	7.60
107[illegible]	104[illegible]	Treas 11¾pc 1991	104[illegible]		11.28	9.77
95[illegible]	92[illegible]	Funding 5¾pc '87–91‡‡	92[illegible]	–[illegible]	6.20	8.73
90[illegible]	87[illegible]	Treas. 3pc 1991	87[illegible]	–[illegible]	3.41	7.80
105[illegible]	101[illegible]	Treas 10pc Cv '91 ‡‡	101[illegible]	–[illegible]	9.90	9.60
107[illegible]	103[illegible]	Exch. 11pc 1991	103[illegible]		10.64	9.77
98[illegible]	95[illegible]	Treas. 8pc 1991	95[illegible]		8.41	9.68
113[illegible]	108[illegible]	Treas 12¾pc 1992‡‡	108[illegible]		11.72	9.76
104[illegible]	100[illegible]	Treas 10pc 1992	100[illegible]		9.93	9.76
98[illegible]	94[illegible]	Treas. 8pc 1992 ‡‡	94[illegible]		8.44	9.67
106[illegible]	102[illegible]	Treas 10½pc Cv 1992‡‡	102[illegible]		11.27	9.78
86[illegible]	83[illegible]	Treas. 3pc 1992	84[illegible]	+[illegible]	3.56	7.71
112[illegible]	107[illegible]	Exch. 12¼pc '92	108	–[illegible]	11.35	9.85
117[illegible]	112[illegible]	Exch 13½pc 1992	112¼		12.03	9.87
97[illegible]	94[illegible]	Treas 8¼pc 1993	94[illegible]		8.73	9.74
105[illegible]	100[illegible]	Treas 10pc 1993‡‡	100[illegible]	–[illegible]	9.92	9.77

Five to Fifteen Years

1988 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
115[illegible]	110[illegible]	Treas 12½pc 1993‡‡	110[illegible]		11.31	9.79
93[illegible]	89[illegible]	Funding 6pc 1993‡‡	89[illegible]		6.67	8.41
121[illegible]	115[illegible]	Treas 13¾pc 1993‡‡	116	–[illegible]	11.86	9.84
101[illegible]	94[illegible]	Treas. 8½pc 1994	94[illegible]		8.97	9.73
125[illegible]	120[illegible]	Treas 14½pc 1994‡‡	120[illegible]		12.08	9.80
120[illegible]	115[illegible]	Exch 13½pc 1994	115[illegible]		11.69	9.92
105[illegible]	100[illegible]	Treas. 10pc Ln. 1994‡‡	101[illegible]		9.88	9.71
116[illegible]	111[illegible]	Exch. 12½pc 1994	111[illegible]	–[illegible]	11.20	9.91
101[illegible]	95[illegible]	Treas 9pc 1994‡‡	97[illegible]		9.28	9.63
114[illegible]	109[illegible]	Treas 12pc 1995	109[illegible]	–[illegible]	10.92	9.91
83[illegible]	78[illegible]	Exch 3pc Gas 90–95	78[illegible]	–[illegible]	3.81	6.95
106[illegible]	100[illegible]	Exch. 10¼pc 1995	102[illegible]	–[illegible]	10.05	9.85
120[illegible]	113[illegible]	Treas 12¾pc 1995‡‡	114[illegible]	–[illegible]	11.12	9.88

Over Fifteen Years

BRITISH FUNDS—Contd

Undated

Index-Linked

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

Financial

FOREIGN BONDS & RAILS

AMERICANS

Continued on next page

Money Market Trust Funds

Money Market Bank Accounts

UNIT TRUST NOTES

LONDON SHARE SERVICE

AMERICANS—Contd

1988 High	Low	Stock	Price $	+ or −	Div Gross	C'vr	Y'ld Gr's
28¼	21¼	Tenneco $5	27¾	+⅛	$3.04	–	6.5
28⅞	19⅞	Texaco $6.25	27⅞	...	♦$3.00	–	6.3
58½	43¼	Time Inc. $1	56¾	−½	$1.00	–	1.0
20⅜	15⅞	Transamerica $1	19½	−⅜	$1.84	–	5.5
10½	754p	Transworld Corp $5	10½	+½	20c	–	1.1
20⅛	14½	TRINOVA Corp	17½	.....	56c	–	1.9
19	15⅛	USX $1	18¼	+⅛	$1.20	–	3.8
23	17⅞	Utd. Technologies	22½	−⅛	$1.60	–	4.2
33	26¼	US West§	33	+¾	$3.52	–	6.3
21¼	16⅞	Waste Management $1	20¼	+⅛	48c	–	1.4
16⅞	12⅞	Whirlpool $1	16½	+¼	$1.10	–	3.9
32⅛	18¼	♦Woolworth $3½	31⅛	−⅛	$1.64	–	3.1

CANADIANS

1988 High	Low	Stock	Price	+ or −	Div Gross	C'vr	Y'ld Gr's
309p	173p	ABM Gold Corp ‖	187p	+1	–	–	–
32p	11p	♦Abbot Energy Corp	26p	+1	–	–	–
14⅛	990p	♦Amer Barrick Res	12⅛	−⅛	–	–	–
10p	3½p	American Lightwave	7p	+2	–	–	–
47p	18¾p	♦Armeno	26p	+1	–	–	–
76p	45p	Augmitto Expln	72p	+6	–	–	–
13½	10⅝	Bk Montreal ‖	13½	+¼	$2.00	–	7.2
675p	514p	Bk. Nova Scot.‖	675pd	+10	76c	–	5.5
19⅛	15¼	BCE ‖	18¼	+¼	$2.44	–	6.5

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS – Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

DRAPERY AND STORES—Contd

ELECTRICALS

ENGINEERING

ENGINEERING—Contd

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.)—Contd

INDUSTRIALS (Miscel.)—Contd.

INSURANCES

LEISURE

هكذا من الأصل

LONDON SHARE SERVICE

LEISURE—Contd

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PAPER, PRINTING, ADVERTISING — Contd

PROPERTY

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TEXTILES—Contd

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

TRUSTS, FINANCE, LAND—Contd

Finance, Land, etc

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OIL AND GAS—Contd

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PLANTATIONS

Rubbers, Palm Oil

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MINES

Central Rand

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Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

MINES—Contd

Tins

Miscellaneous

THIRD MARKET

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ◆ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Dealt in under Rule 535(3).
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- ✤ Not comparable
- ✤ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ± Cover does not allow for shares which may also rank for dividend at a future date. No P/E usually provided.
- L No par value

B.Fr. Belgian Francs. Fr. French Francs §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1986-87. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1986. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1987. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p.... y	71	+1
Craig & Rose £1.. y	780xd	.....
Finlay Pkg. 5p.... y	85	.....
Holt (Jos) 25p..... y	£11¼	.....

IRISH

Nat. 9¾ % 84/89..	£100¼	.....
9pc Cap Ln. 1996..	£98¾	.....
Fin. 13% 97/02...	£119	.....
Arnotts............ y	390	.....
CPI Hldgs.......... y	115	−1
Carrol Inds. .... y	152xd	.....
Hall (R. & H.)......	165	.....
Helton Hldgs...... y	98	−2
Irish Ropes......... y	165	.....
Unidare........... y	410	.....

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied-Lyons	35
Amstrad	16
BAT	36
BOC Grp.	36
BSR	8
BTR	22
Barclays	35
Beecham	42
Blue Circle	38
Boots	19
Bowaters	35
Brit Aerospace	35
Brit Telecom	22
Burton Ord	21
Cadburys	32
Charter Cons	38
Comm Union	34
Courtaulds	34
FKI Babcock	12
FNFC	23
Gen Accident	85
GEC	13
Glaxo	85
Grand Met	45
GUS 'A'	95
Guardian	85
GKN	28
Hanson	12
Hawker Sidd	48
ICI	72
Jaguar	26
Ladbroke	38
Legal & Gen	25
Lex Service	33
Lloyds Bank	26
Lucas Inds	50
Marks & Spencer	17
Midland Bk	37
Morgan Grenfell	30
NEI	10
Nat West Bk	52
P & O Dfd	52
Plessey	16
Polly Peck	38
Racal Elect	32
RHM	30
Rank Org Ord	64
Reed Intnl	36
STC	24
Sears	11
TI	28
TSB	9
Tesco	14
Thorn EMI	68
Trust Houses	21
T&N	17
Unilever	42
Vickers	14
Wellcome	45
Property	
Brit Land	38
Land Securities	52
MEPC	52
Peachey	50
Oils	
Brit. Gas	15
Brit Petroleum	24
Burmah Oil	50
Charterhall	3
LASMO	40
Premier	7½
Shell	93
Ultramar	26
Mines	
Cons Gold	95
Lonrho	20
RTZ	35

A selection of Options traded is given on the London Stock Exchange Report Page

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £948 per annum for each security.

LONDON STOCK EXCHANGE

Account Dealing Dates			
*First Dealings	Option Declarations	Last Dealings	Account Day
Jun 20	Jun 30	Jul 1	Jul 11
Jul 4	Jul 14	Jul 15	Jul 25
Jul 18	Jul 28	Jul 29	Aug 8

*New time dealings may take place from 9.00 am two business days earlier.

Speculative features dominate cautious equities while Gilt-edged mark time

SPECULATIVE STOCKS provided the main features of the UK securities markets yesterday, as the big investment institutions stood aside while City analysts continued to assess the implications of Tuesday's increase in domestic interest rates.

With a few exceptions, the blue chip shares were neglected, and market indices trod water around overnight levels. With attention now returned to the domestic scene, Wall Street's overnight gain was little help to London.

Trading results from a batch of major companies also failed to excite the market. GEC's profits statement was regarded as "worthy but boring", and did little to improve the group's image in the marketplace. Good figures and a bullish analysts' meeting at Thorn EMI helped the shares but had little overall effect on the market.

Substantially increased interim profits and dividend from Blue Arrow, the world's largest employment agency, were not enough to buttress analysts' forecasts for the full year, and the shares fell sharply.

The FT-SE Index closed 1.8 down at 1855.1, with the blue chips fading at the end of the day. Turnover of 378m shares through the Seaq system indicated moderate trading levels.

The leading securities houses continued to take a cautious view on market prospects in the wake of the record deficit on UK trade in May, and the consequent rise in UK base rates.

Citicorp Scrimgeour Vickers says the May deficit throws doubt on the strategy of "heading off inflationary pressures via higher base rates and a strong exchange rate". The firm warns that the trade account collapse poses the risk of either "much higher base rates" or "rather higher inflation".

The food sector was alive with rumours that share stakes were on the move, but a series of denials took some of the heat out of the market.

The oil industry independents came in for renewed speculative interest, after the Loag Napia (London Oil Analysts Group/North American Petroleum Association) conference in London heard bullish views on bid prospects.

Government bonds ended with losses of ½ a point, with the sector still nervous over the outlook for near term rates as well as for the longer term trends in domestic inflation. Prices started off firmly as traders picked up stock to meet selling commitments from the previous session. However, the market soon sagged as these technical pressures evaporated and two way trade saw sellers gradually take the ascendency.

Small gains in Index-linked Gilts, barely exceeding ⅛ of a point, contrasted with the trend in conventional Gilts and indicated underlying worries over inflation.

Glaxo surged in early trading as several analysts upgraded profit forecasts little more than a month after downgrading them on currency fears and worries about sales growth. Dr Peter Woods, analyst at Barclays de Zoete Wedd, lifted his forecast from £810m to £835m for the year ending in June, while Mr Ian White at Kleinwort Grieveson was forecasting £812.5m, up from £790m.

The recovery in the dollar, ahead of today's deadline on which Glaxo bases the foreign exchange elements of its full year results, has prompted analysts effectively to restore last month's downgradings.

Sentiment was also helped by news of a London conference which suggested that Glaxo might be ahead of UK rivals in developing a receptor antagonist against Serotonin 5HT3, a migraine-related brain hormone. Later, however, there were rumours of possible adverse side-effects to the drug. Glaxo shares ended at 984p, a gain of 19 on the day.

GEC attracted a substantial turnover – 17m were traded – but the shares only managed a minor improvement to 157p after the company posted pre–tax profits up 14 per cent to £708, in the middle of the range of analysts' forecasts.

Before the figures GEC shares had touched 160p with a heavy business in traded options noted. But interest faded after the analysts meeting – "low–key and nothing out of the ordinary" said one observer. Nevertheless, Chris Tucker, GEC analyst at Kleinwort Grieveson said the stock "remains attractive on a prospective yield of 6.6 per cent" and increased his current year forecast from £750 to £760m.

Thorn EMI shares featured with a leap of 19 to 649p, on much –increased turnover of 6.8m, after revealing preliminary profits up 42 per cent at £225.3m – at the top end of market expectations. There was keen buying of Racal traded options.

Roy Owens, analyst at Kitcat and Aitken is forecasting "close to £300m for the current year" and says the shares are worth "nearer to 700p than the current level".

Dee Corporation shone brightly, despite profit downgradings by several Food sector analysts. Immediately business opened buyers were chasing the stock on speculation that Hong Kong-based Hutchison Whampoa was planning to acquire A.B.Food's 15 per cent stake. Turnover increased sharply, totalling 11m shares, but the tempo slackened following a denial from Hutchison. After peaking at 194p, Dee ended 7 higher on balance at 191p.

The speculation sent pulses racing for other Foods. S & W Berisford rose 6 to 357p on hopes that AB Foods, up 5 at 294p, would sell its 23.7 per cent stake to a predator. Dalgety, rumoured to be in the sights of Goodman Fielder, jumped 8 to 335p, but Tuesday's star RHM reacted 8 to 394p following reports of Goodman playing down the disposal of its 29.8 per cent holding. Cadbury Schweppes, unusually, was not in the game and eased to 404p on turnover of only 1.1m shares.

Steetley, the construction materials group, confirmed recent rumours that a a major deal was pending in the industry with the announcement of a £68.2m rights issue, in the ratio of one–for–five at 280p a share. Steetley shares promptly dropped 18 to 325p on the news.

The money will be used to reduce gearing and fund further acquisitions in Spain, France and North America, where negotiations are currently in progress.

Legal and General attracted another heavy turnover – 3.7m changed hands – in the wake of continuing rumours of stake –building and imminent takeover moves. Legal shares jumped to 327p at one point, still stimulated by talk that Italian group Generali may be about to launch an offer for the group, but subsequently fell back sharply towards the close to end the session a net 2 off at 319p.

Abbey Life, another so–called bid target, ended the day 1½ down at 322½p after 329p on turnover of 2.7m. Pearl, where Larry Adler's FAI holds a 7 per cent stake, rose 5 to 495p but Prudential came in for late profit –taking to close 2 off at 165½p on turnover of 6.1m. Commercial Union dipped 8½ to 375p and Royals 8 to 408p.

Yale & Valor opened sharply higher, still reflecting this week's rumours that a stake may have been accumulated by Williams Holdings. Dealers agreed that there was an increasing shortage of stock following persistent buying of Y&V shares. Mr Michael Montague, chairman of Y&V, said, "Nearly 2.5m of our shares changed hands in the first two days this week, but I have heard nothing yet from any nominee buyers."

He confirmed that Y&V is close to clinching a modest acquisition - dealers thought the cost would be around £20m. In late trading the shares surged to close at 372p, a gain of 41 on the day.

Rotork shares eased back as short-term investors took profits, but sales were mopped up by the recent large buyer who, traders say, may hold nearly 5 per cent of the equity. The stakebuilder's identity is unknown, but rumours suggested that it could be Meggitt, after Hopkinsons had denied having any bid intentions on Tuesday.

Meggitt managing director, Mr. K.H.Coates, said yesterday, "We hold no shares in Rotork, having sold our stake last year". Rotork chief executive, Mr. T.W.Eassie, commented "We are obviously aware of the recent activity in our shares but do not comment on market rumours". The shares closed just 3 easier at 195p.

International stocks were well supported in early trading, but lost momentum in the afternoon as Wall Street opened weaker and dealers reported some of the lowest afternoon turnovers in memory. Most, including Glaxo, closed off their highs, with ICI ending 5 better at £10½ and Beecham losing a penny to 467p, after 472p. Wellcome finished 7 down at 523p as investors took profits after the run up to the Stockholm Aids conference.

Hanson gave up ½ to 141p after announcing a small US disposal. Turnover was 9.3m shares. Blue Arrow announced interim results and fell 13 to 111p as analysts decided that full-year forecasts of £110m were looking unobtainable.

Christies International dropped 13 to 525p, while Reuters moved up 12 to 537p on dollar-related buying. BTR was a firm market and the shares put on 5 to 274p, after 277½p. Enterprise Oil and LASMO were by far the best performers in oils with both settling around 11 higher on the day at 495p and 465p respectively as a fresh wave of takeover speculation washed over the market.

There was also buying interest in Sovereign, 6 up at 156p, and Ultramar, 5 better at 307p.

Kleinwort Benson came in for sustained buying interest, via the inter-dealer broker screens and the shares settled 4 firmer at 384p. Morgan Grenfell edged up 3 to 315p, as did SG Warburg, 333p.

TSB were supported and hardened to 108p – on turnover of 7.4m – in front of today's half-timer.

Stores were a shade easier all round as interest rate fears dampened optimism. All of the leaders were down, except Sears which after a satisfactory AGM rose 1 to 116p on volume of 4.4m, including several bargains of ½m at 116¾p. Next fell 4 to 251p despite Tuesday's City presentation by George Davies, while Harris Queensway held up well following press comment that Sir Philip Harris's attempts to put together a management buyout were on the rocks, and the stock closed down just 1 to 157p after thin trading.

British Telecom were again actively traded and put on 2½ more to 257p awaiting the OFTEL report. Racal eased back 3 to 337p reflecting profit-taking after Tuesday's figures.

Atlantic Computers were outstanding in the second-liners with the shares boosted a further 15 to 375p after UBS Phillips & Drew joined Kleinwort Grieveson in recommending the shares.

Westland attracted revived inquiry after news that Fiat Spa was negotiating the sale of its stake in the British helicopter maker to United Technologies Corp. of the US. Fiat said they no longer regarded the investment, acquired in 1986, as strategic and that negotiations should be completed by the end of the year. Matthew Hall rose to 140p on speculation of Costain making an offer while expansion hopes lifted William Cook 7 to 192p. North British Steel were suspended at 38p pending an announcement.

J Sainsbury shares improved as the chairman told the annual meeting yesterday, "I have every confidence that once again the company will achieve significant profits growth".

Quadrant responded to a flurry of speculative interest and rose 8 to 220p while LandLeisure were similarly better at 41p in recognition of growth potential.

A quiet motors sector was dominated by buying of Western Motor Holdings and the shares put on 23 to 553p. Dealers said the stock has been undervalued.

UK Land went on a rollercoaster ride as early demand, fuelled by a stock shortage and by rumours that its stake in Epic had been sold, forced the price up 37 by midday. But with a 50-point spread offered by BZW in a thin market, the shares slumped in later trading to close down 3 at 735p.

Speyhawk lost 6 to 358p after the resignation of Mr Derek Parkes, thought by some to be the driving force behind the group. Laing Properties were still attracting buyers after Tuesday's investment portfolio acquisition and improved 6 to 496p. London & Metropolitan rose 6 to 195p on an unconfirmed report that it had won the County Hall redevelopment contract, but the smart money is said to still be on the consortium led by Imry Merchant.

Walter Runciman, the London-based shipping and insurance concern, attracted the market's attention after it acquired another 50,000 shares in Cumbrian shippers James Fisher. Runciman has been slowly building up a stake in Fisher for some months and now holds 12.19 per cent. Although chairman Garry Runciman denied that the stake-building is a prelude to a bid for Fisher, rumours persist that the Runciman might use Fisher as "poison pill" to fight off the unwelcome £23.9m-takeover bid launched earlier this month by Telfos, the metal products company. Runciman eventually closed unchanged on 321p while Fisher firmed 3 on the day to 148p.

The Traded Options Market had a quiet day, particularly in FTSE 100 stocks, which could only muster 2,000 contracts in total. Overall, 20,838 calls and 9,703 puts were traded to make 30,541 contracts overall. GEC dominated with 2,618 calls and 1,587 puts after its annual results met market expectations. Trusthouse Forte were also popular in anticipation of today's agm and ended the day with 2,725 calls.

Traditional Options

- First dealings June 18
- Last dealings June 24
- Last declarations Sept 15
- For Settlement Sept 26

For rate indications see end of London Share Service

Calls were arranged in Smith & Nephew, London Secs., Western Motor, Norfolk Capital, Kalon, ERF, Charles Baynes, Far Eastern Resources, CoxMoore, and Gibbs & Dandy "A". Stocks to attract call money included Ashley Industrial and Edmonds Holdings while double options were transacted in Virgin, RHM, Western Motor, and North Kalgurli.

FINANCIAL TIMES STOCK INDICES

	June 29	June 28	June 27	June 24	June 23	Year Ago	1988 High	1988 Low	Since Compilation High	Since Compilation Low
Government Secs	87.94	88.08	87.98	88.45	88.82	90.49	91.43 (18/4)	86.97 (13/1)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	97.60	97.61	97.61	97.83	98.02	97.22	98.67 (25/5)	94.14 (8/1)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary ♥	1479.7	1477.4	1468.1	1494.9	1496.7	1782.6	1496.7 (23/6)	1349.0 (8/2)	1926.2 (16/7/87)	49.4 (26/6/40)
Gold Mines	207.1	210.7	211.0	213.3	214.1	378.9	312.5 (7/1)	195.4 (13/5)	734.7 (15/2/83)	43.5 (26/10/71)
Ord. Div. Yield	4.53	4.49	4.53	4.45	4.44	3.21				
Earnings Yld. % (full)	11.56	11.52	11.62	11.40	11.38	7.76				
P/E Ratio (net)(*)	10.53	10.58	10.49	10.69	10.71	15.87				
SEAQ Bargains (5pm)	22,105	23,905	26,221	24,338	28,183	43,405				
Equity Turnover (£m)	-	960.54	963.61	2659.42	1537.32	1413.55				
Equity Bargains	-	28,208	24,134	27,995	30,596	53,200				
Shares Traded (ml)	-	440.1	375.5	597.7	573.1	534.8				

S.E ACTIVITY

Indices	June 28	June 27
Gilt Edged Bargains	129.6	127.9
Equity Bargains	182.8	156.4
Equity Value	1941.5	1947.7
5-Day average		
Gilt Edged Bargains	121.4	116.2
Equity Bargains	178.9	174.6
Equity Value	2909.4	2907.5

♥ Opening	10 a.m.	11 a.m.	12 p.m.	1 p.m.	2 p.m.	3 p.m.	4 p.m.
1482.5	1481.0	1483.3	1485.0	1484.5	1485.6	1485.2	1483.9

Day's High 1486.2 Day's low 1479.7

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55, S E Activity 1974. * Nil=10.43.

LONDON REPORT AND LATEST SHARE INDEX: TEL. 0898 123001

NEW HIGHS AND LOWS FOR 1988

NEW HIGHS (128).

AMERICANS (14) CANADIANS (7) BANKS (1) BREWERS (4) BUILDINGS (6) CHEMICALS (3) STORES (2) ELECTRICALS (7) ENGINEERING (8) FOODS (5) INDUSTRIALS (16) INSURANCE (4) LEISURE (3) MOTORS (3) NEWSPAPERS (2) PAPERS (5) PROPERTY (3) SHIPPING (3) TEXTILES (4) TRUSTS (23) OILS (2) OVERSEAS TRADERS (1) MINES (1) THIRD MARKET (3).

NEW LOWS (19).

BRITISH FUNDS (4) Exch 10½pc Cv. 1988, Treas. 6¾pc 1987/90, Funding 5¾pc 1987/91, Treas. 10pc Cv. 1991, STORES (2) Mercies (J.), Tie Rack, ELECTRICALS (2) Godwin Warren Control, Microsystems, FOODS (1) Acatos & Hutcheson, PAPERS (2) BBB Design, MIL Research, MINES (4) Buffels, Stilfontein, Western Deep, Gold Fields S.A., THIRD MARKET (1) Feltrim Mining.

FT – ACTUARIES INDICES

These Indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS

Figures in parentheses show number of stocks per section

	Wednesday June 29 1988 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at 25%)	Est. P/E Ratio (Net)	xd adj. 1988 to date	Tue Jun 28 Index No.	Mon Jun 27 Index No.	Fri Jun 24 Index No.	Year ago (approx) Index No.
1 CAPITAL GOODS (208)	788.67		9.99	3.99	12.43	12.32	788.35	782.65	794.10	954.60
2 Building Materials (29)	1008.48	-0.4	10.92	4.22	11.28	15.99	1012.97	998.39	1017.45	1226.24
3 Contracting, Construction (35)	1592.81	-0.1	18.33	3.38	12.66	25.92	1594.81	1590.04	1605.78	1742.17
4 Electricals (12)	2086.57	-0.1	9.06	4.78	13.46	65.85	2089.64	2071.78	2110.15	2458.49
5 Electronics (31)	1785.44	+0.2	9.82	3.48	13.88	18.75	1782.44	1791.40	1727.89	2113.88
6 Mechanical Engineering (56)	406.54		9.58	4.50	13.03	7.18	406.61	402.42	406.72	508.68
8 Metals and Metal Forming (8)	473.93	-0.4	10.08	3.94	12.28	7.77	475.87	471.21	476.16	541.16
9 Motors (13)	278.69	-0.5	11.58	4.39	10.03	2.71	280.08	279.84	283.52	367.49
10 Other Industrial Materials (24)	1314.96	+0.9	8.99	4.28	13.19	21.24	1302.96	1292.87	1312.89	1543.11
21 CONSUMER GROUP (187)	1093.44		8.91	3.54	14.19	15.42	1092.91	1085.77	1102.27	1312.36
22 Brewers and Distillers (21)	1115.82	-0.4	10.67	3.61	11.77	15.78	1119.81	1117.70	1134.22	1183.09
25 Food Manufacturing (23)	989.45	-0.1	8.28	3.50	15.45	14.78	990.58	982.99	994.31	1033.35
26 Food Retailing (16)	2023.57	+0.8	8.52	3.25	15.62	21.46	2008.02	1990.87	2029.32	2495.09
27 Health and Household (12)	1862.97	+0.4	6.73	2.62	17.29	17.35	1854.98	1840.63	1865.65	2459.10
29 Leisure (30)	1345.25	+0.5	8.25	3.49	15.32	18.36	1338.60	1331.89	1355.22	1385.02
31 Packaging & Paper (17)	520.93	+0.3	9.08	3.86	14.20	9.15	519.23	516.66	521.13	703.39
32 Publishing & Printing (17)	3434.97	-0.1	8.32	4.42	15.16	78.60	3440.31	3430.68	3469.29	4447.64
34 Stores (34)	884.32	-0.1	10.43	4.00	12.65	11.45	886.96	882.51	828.71	1069.67
35 Textiles (17)	601.92	-0.9	11.45	4.52	10.26	10.99	607.17	597.61	606.62	810.97
40 OTHER GROUPS (92)	910.35	+0.1	10.71	4.28	11.44	10.59	909.31	906.51	916.98	1103.55
41 Agencies (19)	1162.86	-1.0	7.44	2.32	16.97	11.31	1174.92	1179.30	1190.15	1661.08
42 Chemicals (20)	1095.15	+0.6	11.07	4.49	11.04	22.14	1089.06	1083.65	1097.42	1383.32
43 Conglomerates (13)	1207.71	-0.3	10.45	4.41	11.00	16.27	1211.10	1209.85	1219.46	1426.13
45 Shipping and Transport (12)	1901.32	+0.3	11.31	4.70	11.71	34.84	1987.52	1985.55	1921.47	2298.33
47 Telephone Networks (2)	1001.86	+0.6	11.11	4.44	11.67	0.00	995.61	989.30	999.85	1081.68
48 Miscellaneous (26)	1172.11		11.21	4.38	10.13	20.25	1171.94	1170.00	1186.21	1551.52
49 INDUSTRIAL GROUP (487)	975.96	+0.1	9.68	3.86	12.87	13.48	975.34	969.71	983.74	1177.04
51 Oil & Gas (13)	1847.66	+0.9	10.03	5.73	11.87	39.00	1843.66	1825.92	1849.44	2298.72
59 500 SHARE INDEX (500)	1049.76	+0.1	9.84	4.13	12.72	15.67	1048.86	1042.24	1057.09	1271.56
61 FINANCIAL GROUP (123)	710.31	-0.3	-	4.72	-	14.82	712.31	703.92	713.52	820.84
62 Banks (8)	682.60	+0.1	20.85	5.97	6.43	18.03	681.87	672.85	684.19	822.54
65 Insurance (Life) (8)	1060.62	-0.4	-	4.73	-	24.97	1064.74	1026.28	1024.64	1158.63
66 Insurance (Composite) (7)	546.98	-0.9	-	5.41	-	13.92	552.77	549.18	558.01	614.07
67 Insurance (Brokers) (7)	1008.73	-0.8	9.55	6.31	13.53	31.54	1016.50	1022.51	1011.25	1257.73
68 Merchant Banks (11)	359.98	-0.2	-	4.67	-	5.94	359.04	359.57	361.36	415.41
69 Property (52)	1225.41	-0.7	4.92	2.63	26.80	13.17	1233.60	1227.83	1251.53	1318.90
70 Other Financial (30)	387.69	-0.9	10.00	4.88	12.43	8.24	384.29	383.83	386.77	540.48
71 Investment Trusts (78)	987.88		-	2.99	-	11.68	987.98	985.71	911.49	1088.74
81 Mining Finance (2)	521.13	-2.8	9.27	3.41	12.19	8.12	531.65	529.12	542.26	615.71
91 Overseas Traders (8)	1159.16	-0.2	9.96	4.82	11.80	27.88	1161.47	1152.05	1165.46	1161.86
99 ALL-SHARE INDEX (711)	960.90		-	4.18	-	15.25	961.00	954.22	967.61	1149.15

	Index No.	Day's Change	Day's High	Day's Low	Jun 28	Jun 27	Jun 24	Jun 23	Jun 22	Year ago
FT-SE 100 SHARE INDEX ♦	1855.1	-1.8	1863.6	1855.1	1856.9	1841.5	1871.3	1878.9	1879.3	2269.8

FIXED INTEREST

PRICE INDICES	Wed Jun 29	Day's change %	Tue Jun 28	xd adj. today	xd adj. 1988 to date
British Government					
1 5 years	121.08	-	121.08	-	5.87
2 5-15 years	136.74	-0.05	136.81	-	7.09
3 Over 15 years	146.10	-0.33	146.57	-	6.88
4 Irredeemables	161.98	-0.27	162.41	-	7.30
5 All stocks	134.10	-0.08	134.21	-	6.68
Index-Linked					
6 5 years	127.32	-	127.31	-	1.12
7 Over 5 years	120.26	-0.05	120.32	-	1.72
8 All stocks	120.67	-0.04	120.73	-	1.67
9 Debentures & Loans	118.13	+0.04	118.22	0.14	6.12
10 Preference	93.62	-	93.62	-	3.31

AVERAGE GROSS REDEMPTION YIELDS		Wed Jun 29	Tue Jun 28	Year ago (approx.)
British Government				
1 Low	5 years	9.39	9.39	8.29
2 Coupons	15 years	9.49	9.46	9.05
3	25 years	9.27	9.23	9.06
4 Medium	5 years	9.84	9.84	9.23
5 Coupons	15 years	9.69	9.66	9.28
6	25 years	9.47	9.42	9.29
7 High	5 years	9.95	9.92	9.36
8 Coupons	15 years	9.86	9.83	9.43
9	25 years	9.56	9.52	9.21
10 Irredeemables		9.47	9.47	8.96
Index-Linked				
11 Inflation rate 5%	5yrs.	2.80	2.79	2.63
12 Inflation rate 5%	Over 5 yrs.	3.86	3.86	3.83
13 Inflation rate 10%	5yrs.	1.79	1.78	2.31
14 Inflation rate 10%	Over 5 yrs.	3.70	3.69	3.76
15 Debs &	5 years	10.81	10.86	10.12
16 Loans	15 years	10.79	10.81	10.12
17	25 years	10.77	10.77	10.12
18 Preference		9.59	9.59	10.27

♦ Opening index 1860.7; 10 am 1858.0; 11 am 1859.7; Noon 1861.8; 1 pm 1861.4; 2 pm 1862.7; 3 pm 1862.9; 3.30 pm 1860.2; 4 pm 1861.5

† Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A new list of constituents is available from the Publishers, The Financial Times, Bracken House, Cannon Street, London EC4P 4BY, price 15p, by post 32p.

NAME CHANGE: R.H.P. Group(4) has changed to Pilgrim House Group.

LONDON TRADED OPTIONS

Option	Strike	Calls Jul	Calls Oct	Calls Jan	Puts Jul	Puts Oct	Puts Jan
Allied Lyons (*422)	390	37	53	62	3	8	13
	420	15	28	42	9	16	26
	460	3	13	24	40	45	48
Brit. Airways (*149)	130	20	-	-	1	-	-
	140	12	19	22	1½	6	9
	160	2	10	12	14	17	21
Brit. & Comm. (*253)	240, 260, 280	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
B.P. (*256)	240, 260, 280	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bass (*788)	750, 800, 850	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Cable & Wire (*365)	330, 360, 390	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Cons. Gold (*1048)	1000, 1050, 1100	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Courtaulds (*308)	300, 330, 360	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Com. Union (*379)	360, 390, 420	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
British Gas (*187)	170, 180, 200	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
G.E.C. (*157)	140, 160, 180	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
G.K.N. (*315)	300, 330, 360	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Grand Met. (*518)	500, 550, 600	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
I.C.I. (*1083)	1050, 1100, 1150	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jaguar (*282)	260, 280, 300	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Land Securities (*552)	550, 600, 650	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Marks & Spencer (*173)	160, 180, 200	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Britoil (*500)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Rolls-Royce (*128)	120, 130, 140	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
STC (*270)	240, 260, 280	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sainsbury (*225)	200, 220, 240	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Shell Trans. (*1063)	1000, 1050, 1100	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Storehouse (*254)	240, 260, 280	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Trafalgar House (*308)	300, 330, 360	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
T.S.B. (*108)	100, 110, 120	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ultramar (*304)	300, 330, 360	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Woolworth (*285)	280, 300, 330	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Option	Strike	Calls Aug	Calls Nov	Calls Feb	Puts Aug	Puts Nov	Puts Feb
LASMO (*459)	390, 420, 460	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
P. & O. (*579)	500, 550, 600	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Pilkington (*213)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Plessey (*159)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Prudential (*169)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Racal (*338)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
R.T.Z. (*425)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Vaal Reefs (*$76)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Option	Strike	Calls Sep	Calls Dec	Calls Mar	Puts Sep	Puts Dec	Puts Mar
Amstrad (*206)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Barclays (*412)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Beecham (*470)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
BTR (*276)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Blue Circle (*530)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dixons (*177)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Glaxo (*988)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Hawker Sidd. (*498)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Hillsdown (*287)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Hanson (*142)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Lonrho (*245)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Midland Bk (*440)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sears (*117)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Tesco (*155)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Trusthouse Forte (*258)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Thorn EMI (*649)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Unilever (*471)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Wellcome (*524)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Boots (*228)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Option	Strike	Calls Aug	Calls Nov	Calls Feb	Puts Aug	Puts Nov	Puts Feb
Brit Aero (*409)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
BAA (*272)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
BAT Inds (*420)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Brit. Telecom (*257)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Cadbury Schweppes (*405)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Guinness (*330)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ladbroke (*433)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Conv. 9½% 2005 (*100)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Tr. 12% 1995 (*110)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE Index (*1861)	1650, 1700, 1750, 1800, 1850, 1900, 1950, 2000	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

June 29. Total Contracts 30,541 Calls 20,838 Puts 9,703
FT-SE Index Calls 1083 Puts 1007
*Underlying security price.

TRADING VOLUME IN MAJOR STOCKS

The following is based on trading volume for Alpha securities dealt through the SEAQ system yesterday until 5 pm.

Stock	Volume 000's
ASDA Group	[illegible]
Allied-Lyons	[illegible]
Amstrad	[illegible]
Argyll Group	[illegible]
Assoc. Brit. Foods	[illegible]
BAA	[illegible]
BAT	[illegible]
BET	[illegible]
BICC	[illegible]
BOC	[illegible]
BPB Inds	[illegible]
BTR	[illegible]
Barclays	[illegible]
Bass	[illegible]
Beecham	[illegible]
Blue Arrow	[illegible]
Blue Circle	[illegible]
Boots	[illegible]
Brit. Airways	[illegible]
Brit. Aerospace	[illegible]
Brit. & Comm.	[illegible]
British Gas	[illegible]
Brit. Petroleum	[illegible]
Brit. Telecom	[illegible]
Burton	[illegible]
Cable & Wireless	[illegible]
Cadbury-Schweppes	[illegible]
Coats Viyella	[illegible]
Commercial Union	[illegible]
Cons. Gold	[illegible]
Cookson	[illegible]
Courtaulds	[illegible]
Dalgety	[illegible]
Dee Corporation	[illegible]
Dixons	[illegible]
English China Clays	[illegible]
Enterprise Oil	[illegible]
FKI Babcock	[illegible]
Fisons	[illegible]

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	7	57	49
Corporations, Dominion and Foreign Bonds	14	14	25
Industrials	468	290	810
Financial and Properties	201	91	356
Oils	30	26	52
Plantations	2	1	10
Mines	27	76	88
Others	134	45	72
Totals	883	600	1,462

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

"RIGHTS" OFFERS

[illegible]

WORLD STOCK MARKETS

AUSTRIA

June 29	Sch	+ or −
Creditanstalt	1,998	−2
Goesser	2,740	+20
Interunfall	9,930	−20
Jungbunzlauer	7,200	.....
Laenderbank	360	−5
Perlmooser	690	+20
Steyr-Daimler	78	.....
Veitscher Mag	623	+8

BELGIUM/LUXEMBOURG

June 29	Frs.	+ or −
B.B.L.	2,610	−10
Banque Gen. Du. Lux	13,500	.....
Bank Intl. a Lux	13,050	+50
Bekaert B	10,700	+100
Ciment CBR	6,230	+180
Cockerill	245	+12
Cobrayt	9,100	.....
Delhaize	4,500	+10
EBES	4,215	+10
Fabrique Nat	750	+6
GB Inno BM	1,274	+10
GBL(BruxL)	3,350	+45
Generale Bank	5,200	+10
Gevaert	7,250	+30
Hoboken	8,350	+40
Intercom	3,320	+20
Kredietbank	4,275	.....
Pan Holdings	12,000	+200
Petrofina	13,350	+250
Raffinerie Tirle	1,428	.....
Royale Belge	5,210	.....
Soc Gen Belge	4,500	−5
Sofina	12,400	+50
Solvay	13,025	+150
Stanwick Intl	80	.....
Tractebel	7,150	−50
UCB	9,000	.....
Wagons Lits	5,398	+40

DENMARK

June 29	Kr	+ or −
Baltica Hldgs	525	+10
Carlsberg	1,020	.....
Cop Handelsbank	247	+3.5
D. Sukkerfab	368	+8
Den Danske Bank	364.625	+1.625
East Asiatic	199	.....
GNT Holding	214	+4
I.S.S. B Systems	647.5	+2.5
Jyske Bank	439	.....
Novo Inds	232	+7
Privatbanken	242.7	+2.7
Sophus Berendsen	879	+11
Superfos	2,450	+20

FINLAND

June 29	Mks	+ or −
Amer	210.5	.....
Finnish Sugar	60.8	+0.25
KOP	70.85	+0.3
Kone	247	+0.5
Kymmene	133.5	.....
Nokia	180	−3.5
Pohjola 'B'	86.75	−2.5
Rauma-Repola	33.7	.....
Stockmann 'B'	236	.....
UBF 'C'	35.35	.....
Utd. Paper Prf.	131.5	.....
Wartsila (x11)	237.5	.....

FRANCE

June 29	Frs.	+ or −
Accor	460	+7
Air Liquide	586	.....
Alcatel	2,085	−60
BIC	720	+15
BNP (Cert. Inv.)	286	−3
Bongrain	2,385	−15
Bouygues	920	+19
BSN	4,750	+18
Carrefour	2,500	+19
Club Mediterranee	480	+10
Cie Bancaire	452	+7
Cie Fin. de Suez	264	−4
Cofimeg	294	+1
CGE	292	+1
Damart	2,400	+50
Darty	394	.....
Dumez S.A.	689	+2
Eaux (Cie Gen)	1,280	+11
Elf-Aquitaine	336	−0
Essilor	2,571	−38
Gen. Occidentale	786	+11
Havas	684	+17
Imetal	221	−3.9
LVMH	2,435	+25
Lafarge Coppee	1,361	+6
L'Oreal	3,383	+19
Legrand	2,841	−7
Maisons Phenix	70	+1
Matra S.A.	185	−5
Michelin B	220	−3
Midi (Cie)	1,383	+13
Moulinex	85	−0
Nord Est	113	+2
Paribas	376	−2
Pernod Ricard	950	+7
Perrier	886	−2
Peugeot S.A.	1,247	+25
Printemps Au	525	+8
Radiotech	771	−14
Redoute	2,400	+1
Roussel-Uclaf	1,251	+1
St. Gobain	505	−3
Sefimeg	415	−10
Skis Rossignol	840	+2
Telemech Elect	4,350	−150
Thomson (CSF)	209	+2
Total-Petroles Fr.	343	+3
Valeo	498	+7

GERMANY

June 29	Dm.	+ or −
AEG	200.2	−0.2
Allianz AG	1,417	+5
BASF	250	+2.5
Bayer	279.6	+2.6
Bayer-Hypo	335	+5.5
Bayer-Verein	332	+2
BHF-Bank	401	+4
BMW	512	+6.5
Brown Boveri	315	+7.1
Commerzbank	225.5	+3.3
Continental AG	248.1	+3.8
Daimler-Benz	638	+5
Degussa	335	+2
Deutsche Babcock	172.5	+3.7
Deutsche Bank	435	+2.5
Dresdner Bank	249	+2.5
Feldmuehle Nobel	282	+2
Henkel	487	+3
Hochtief	450	+6

GERMANY (continued)

June 29	Dm.	+ or −
Hoechst	264	+1.8
Hoesch	140.5	+1
Holzmann (P)	388	+2
Horten	186	.....
Hussel	430	−1
Karstadt	421	−7
Kaufhof	363.5	−6.7
KHD	127.9	+7.9
Kloeckner Werke	101	.....
Linde	685	+1.5
Lufthansa	150.5	+2
MAN	187.5	+3.5
Mannesmann	157.1	+1.1
Mercedes Hld	516	+4
Metallgesell	312.5	+2.5
Muench Rueck	1,920	.....
Nixdorf	458	+3.4
Porsche	513	+11
Preussag	174.5	+7.3
Rhein West Elect	224	+2.5
Rosenthal	215	+1
Schering	523	+13
Siemens	417.5	+16
Thyssen	146	+2.8
Varta	278	.....
Veba	267.5	+5.5
V.E.W.	165.3	+0.6
Verein-West	350	.....
Volkswagen	265.5	+5

ITALY

June 29	Lire	+ or −
Banca Com'le	2,113	−17
Bastogi-IRBS	249	−3
CIR	5,600	+1
Credito Italiano	1,064	−15
Fiat	9,339	+50
Generali Assicur	86,200	+500
Italcementi	104,700	−550
La Rinascente	4,204	+4
Montedison	1,770	+167
Olivetti	9,970	+30
Pirelli Co	4,355	+25
Pirelli Spa	2,585	+16
Saipem	2,000	.....
Snia BPD	2,270	+5
Toro Assicur	18,070	+170

NETHERLANDS

June 29	Fls.	+ or −
ACF Holding	53.00	.....
AEGON	85.20	+0.9
Ahold	82.50	+1.4
AKZO	126.00	+1.4
ABN	41.90	+0.1
AMEV	55.30	+0.8
AMRO	72.70	+1.2
Borsumij Wehry	104.10	+2.1
Buehrmann-Tet	50.90	+0.2
Dordtsche Petroleum	213.50	+2.3
Elsevier Ndu	60.30	+0.1
Fokker	23.90	+0.3
Gist Brocades	35.10	+0.3
Heineken	143.50	+1.9
Hoogovens	48.40	+0.7
Hunter Douglas	58.20	+1.5
IHC Caland	16.10	−0.4
Int Mueller	59.00	+2.5
KLM	36.20	+0.3
KNP	156.5	+4
Nat Ned Cert	62.50	+0.9

NETHERLANDS (continued)

June 29	Fls.	+ or −
Nat Mid Bank	167.50	+4
Nedlloyd	250.30	+2.5
Oce Grinten	231.00	+4
Ommeren (Van)	28.50	+1.6
Pakhoed	88.50	+1.7
Philips	32.60	+0.5
Robeco	92.70	+0.6
Rodamco	155.80	.....
Rolinco	88.30	+0.6
Rorento	57.60	.....
Royal Dutch	229.70	+1.6
Unilever	110.50	+1.3
VMF Stork	18.90	+0.7
VNU	95.00	+1
Wessanen	75.40	+0.6
Wolters Kluwer	140.70	−0.8

NORWAY

June 29	Kroner	+ or −
Aker Norcem	43.00	+1
Bergens Bank	129.00	−1.5
Borregaard B	298.00	+3
Christiania Bk	107.50	+2.5
Den Norske Credit	97.00	−0.5
Elkem	130.00	.....
Hafslund	553.00	+3
Kosmos	119.00	+2
Kvaerner	231.00	+3
Norsk Data	63.50	+2.5
Norsk Hydro	217.50	+1.5
Orkla Borregaard	200.5	+2.5
Storebrand	42.50	−0.5

SPAIN

June 29	Pts. %	+ or −
Alcazar	600	+5
Banco Bilbao	1,100	.....
Banco Central	1,205	−5
Banco Exterior	420	.....
Banco Hispano	826	.....
Banco Popular	1,850	.....
Banco Santander	1,419	−8
Banco Vizcaya	1,100	.....
Banesto	1,230	−175
Dragados	433	+6
Hidrola	96.8	−1
Iberduero	137	.....
Petroleos (Cia Esp)	488.5 xc	+5.5
Telefonica	204.7	+7.1

SWEDEN

June 29	Kroner	+ or −
AGA B (Free)	190	−1
Alfa-Laval B (Free)	392	+7
ASEA B (Free)	367	.....
Astra B (Free)	186	+1
Atlas Copco A (Free)	207	+2
Electrolux B (Free)	237	+2
Ericsson B (Free)	241	−1
Esselte B (Free)	205	+3
Mo Och Dom B Free	378	+1
Pharmacia B (Free)	171	+1
Saab-Scania B Free	190	.....
Sandvik B (Free)	195	−3
Skandia (Free)	151	+1
Skandia Intl	158	.....

SWEDEN (continued)

June 29	Kroner	+ or −
Skan Enskilda	144	+3
SKF B Free	305	+1
St. Kopparb'g A Free	405	+2
Swed Cell'sa B (Free)	372	.....
Svka Handelsbn.	123	+2
Volvo B (Free)	336	+1

SWITZERLAND

June 29	Frs.	+ or −
Adia Intl	8,425	+100
Alusuisse	818	+3
Bank Leu	2,650	−50
Brown Boveri	2,380	+30
Ciba Geigy	3,400	+90
do. (PtCts)	2,265	+15
Credit Suisse	2,540	+15
Elektrowatt	3,050	+25
Fischer (Geo.)	1,120	+30
Hoff-Roche (PtCts)	120,250	+1,750
Hoff-Roche 1/10	12,050	+75
Inspectorate Int.	2,075	+75
Jacobs Suchard	7,880	+55
Jelmoli	2,570	+20
Landis and Gyr	1,290	+50
Nestle	8,525	+145
Oer-Buhrle	1,110	+20
Pargesa Hldg	1,560	.....
Pirelli	265	+3
Sandoz (Br)	12,000	−25
Sandoz (PtCts)	2,010	+30
Schindler (PtCts)	705	+5
Sika	760	+10
Surveillance	5,125	+25
Swissair	1,135	+15
Swiss Bank	353	−1
Swiss Reinsce	13,200	+100
Swiss Volksbk	1,735	+15
Union Bank	3,110	+35
Winterthur	5,340	+40
Zurich Ins	5,825	+5

SOUTH AFRICA

June 29	Rand	+ or −
Abercom	2.75	−0.2
AECI	10.4	−0.1
Allied Tech	95	.....
Anglo Am Coal	36	+0.5
Anglo Am Corp	51.5	−0.25
Anglo Am Gold	251	+2
Barlow Rand	21.5	.....
Buffels	51	.....
CNA Gallo	5.5	.....
Currie Finance	3.9	.....
De Beers	38.2	+0.8
Driefontein	33.75	+0.15
First Nat. Bank	13.5	.....
Free State Cons Gold	29.25	+0.75
Gold Fields SA	53	−1
Highveld Steel	5.55	+0.05
Malcor Hldgs	16.5	.....
Nedbank	5.9	.....
OK Bazaars	12	.....
Rembrandt	14.7	+0.35
Rust Plat	38.25	+0.75
Safmarine & Ren.	19.5	−0.25
Sage Holdings	12	.....
SA Brewers	17.75	.....
Smith (C.G)	38.5	+0.5
Tongaat Hulett	11.75	−0.25

JAPAN

June 29	Yen	+ or −
Ajinomoto	3,180	+20
All Nippon Air	1,780	+20
Alps Electric	1,840	+40
Amada	1,230	+40
Amano	1,590	−10
Ando Construct	882	−12
Anritsu	2,510	+20
Aoki Corp.	1,050	+10
Arabian Oil	6,700	+10
Asahi Chemicals	1,090	+10
Asahi Glass	2,040	+40
Atsugi Nylon	1,150	−10
Bank Tokyo	1,560	−20
Banyu Pharm	1,490	+30
Bridgestone	1,330 xc	+40
Brother Inds	809	+1
Calpis Food	1,500	+20
Canon	1,280	+80
Canon Sales	3,430	+210
Casio Computer	1,290	+80
Central Glass	816	−9
Chiyoda Chem	830	+40
Chubu Elect Pwr	3,090	+90
Chugai Pharm	1,600	−10
Citizen Watch	911	+11
Daicel Chemical	863	−2
Daido Steel	715	−20
Daiei	1,760	.....
Dai-ichi Kan Bank	3,130	.....
Daikin Inds	1,060	−10
Daikyo Kanko	2,810	−20
Dai Nippon Ink	791	−9
Dai Nippon Ptg	2,480	+20
Daishowa Paper	2,000	.....
Daiwa House	1,860	+10
Daiwa Sec	2,290	−10
Denny's	3,700	.....
Dowa Mining	738	−19
Ebara	990	+10
Eisai	2,000	+20
Ezaki Glico	1,280	−20
Fanuc	6,130	+250
Fuji Bank	3,140	−30
Fuji Electric	758	+18
Fuji Film	3,770	+120
Fuji Heavy Ind	870	+47
Fujikura Cable	1,010	−30
Fujisawa	1,850	+70
Fujitsu	1,550	+60
Furukawa Elect	835	.....
Green Cross	1,870	+50
Gun-Ei Chem	860	−20
Gunze	1,140	.....
Hasegawa Kom	1,130	−10
Hattori Seiko	2,210	−120
Heiwa Real Est	1,670	.....
Hino Motors	856	+100
Hirose Electric	5,050	+100
Hitachi	1,470	+50
Hitachi Cable	1,100	.....
Hitachi Credit	1,640	+100
Hitachi Maxell	2,320	+30
Hitachi Metals	1,150	+10
Honda	1,710	+60
Honshu Paper	685	−5
House Food Ind	2,200	.....
Hoya	2,230	+10
Ibegami Tsush	1,920	+20
Indl Bank Japan	3,180	−20
Isetan	1,640	.....
Ishihara Sangyo	768	+3
Ishikawajima Ha	920	+10
Isuzu Motors	649	+44
Itoh(C)	830	−5
Itoham Foods	1,570	+40
Ito Yokado	4,290	−10
Iwatsu Electric	1,030	+32
JAL	14,200	+400
J E O L	1,190	+50
Japan Radio	1,590	+60
Japan Steel Wks	688	−14
Jap S Battery	660	+20
Japan Synth Rbr	1,220	+90
Jujo Paper	920	−10
Jusco	2,040	+30
Kajima	1,440	+10
Kaken Pharm	1,800	+10
Kanebo	631	+9
Kanegafuchi Chm	1,020	−30
Kansai Elect Power	3,050	−10
Kansai Paint	695	−5
Kao Corp	1,760	+10
Kashiyama	1,870	+50
Kawasaki Heavy	633	+58
Kawasaki Steel	680	+7
Kikkoman Shoyu	1,220	.....
Kinki Elect	2,900	.....
Kirin Brewery	2,030	−50
Kobe Steel	570	+1
Kotto Mfg	3,400	−80
Kokuyo	3,000	−10
Komatsu	794	+36
Konica	1,700	−10
Korakuen Stadium	3,770	+40
Kubota	743	+13
Kumagai-Gumi	1,000	+5
Kuraray	1,460	.....
Kureha Chemical	1,140	.....
Kyotaru	2,890	−20
Kyoto Ceramic	5,470	+170
Kyowa Hakko	1,630 xc	+50
Lion	1,130	−10
Maeda Construct	1,350	−10
Makino Milling	853	−7
Makita Elect Wk	1,770	+10
Marubeni	650	+6
Marudai Food	1,330	.....
Marui	2,950	.....
MEI	2,450	.....
Matsu Elect. Wks.	2,030	+40
Mazda Motors	640	+32
Meiji Milk	1,070	+20
Meiji Seika	1,000	+2
Minebea	1,010	−10
Minolta Camera	820	+34
Misawa Homes	1,800	.....
M'bishi Bank	2,840	−60
M'bishi Chem	1,120	−30
M'bishi Corp	1,210	−10
M'bishi Elec	895	+50
M'bishi Estate	2,430	−20
M'bishi Gas Chem	760	+1
MHI	890	+25
M'bishi Metal	868	−16
M'bishi Min Cmt	698	+38
M'bishi Oil	707	.....
M'bishi Paper	932	−4
M'bishi Petchem	1,440	.....
M'bishi Plastics	820	+19
M'bishi Rayon	622	+7
M'bishi Tst	3,130	.....
M'bishi Warehse.	1,590	−40
Mitsui Bank	2,210	−10
Mitsui Co.	927	+2
Mitsui Mining	695	−15
Mitsui Petchem	1,390	+10
Mitsui Real Estate	1,930	−20
Mitsui Toatsu	870	.....
Mitsui Warehse	946	.....
Mitsukoshi	1,680	+10
Mitsumi Elect	1,240	+50
Mizuno Sporting	1,480	+60
Mochida Pharm	4,860	+60
Morinaga Milk	855	+9
Murata Mfg	2,870	+160
NEC	2,110	+60
NGK Insulators	1,130	−30
NGK Spark Plug	1,300	+50
NKK Corp.	580	−4
NTN Toyo Brg	763	+12
Nihon Cement	851	+6
Niigata Eng	600	−27
Nikko Sec	1,900	+40
Nikon Corp.	1,260	+60
Nippon Denso	1,910	+10
Nippon Express	1,150	.....
Nippon Gakki	2,150	+100
Nippon Hodo	3,100	−50
Nippon Kayaku	1,170	+20
Nippon Lt Metal	815	−16
Nippon Meat Pack	1,950	−80
Nippon Mining	679	−19
Nippon Oil	1,110	−10
Nippon Road	1,240	+10
Nippon Sanso	770	+10
Nippon Seiko	806	−4
Nippon Sh Glass	855	−13
Nippon Shimpan	1,170	−10
Nippon Steel	620	+5
Nippon Suisan	760	+7
Nippon Yusen	749	+26
Nishimatsu Cons	750	.....
Nissan Motor	1,020	+40
Nissei Sangyo	2,010	−30
Nisshin Flour	1,520	+20
Nisshin Oil	1,040	+20
Nisshinbo Inds.	1,330	−10
Nissin Food	4,160	−70
Nitto Boseki	725	−31
Nomura	3,690	+40
Noritake	1,160	+20
Odakyu Elec Rly	1,010	−10
Ohbayashi-Gumi	930	+10
Oji Paper	1,390	.....
Oki Electric	947	+36
Okuma Mach	1,100	+20
Okumura-Gumi	1,050	+30
Olympus	1,130	+30
Onoda Cement	950	+10
Ono Pharm	6,120	.....
Orient Finance	1,450	−30
Orient Leasing	3,400	−170
Osaka Gas	616	−2
Penta Ocean Con	870	.....
Pioneer	3,130	+100
Renown	931	−3
Ricoh	1,260	+50
Royal Co	2,660	−40
Sankyo	1,970	+30
Sanraku	1,440	+50
Sanrio	4,610	−130
Sanwa Bank	2,550	−70
Sanyo Elect	708	+56
Sapporo	1,730	−10
Secom	6,350	+70
Seiyu Stores	2,110	−60
Sekisui Chem	1,310	−30
Sekisui House	1,720	+20
Settsu Paperboard	975	.....
Seven-Eleven	7,450	−150
Sharp	1,160	+40
Shimizu Construct.	1,000	.....
Shin-Etsu Chem	1,890	+60
Shionogi	1,670	−10
Shiseido	1,780	−70
Showa Aluminium	827	−5
Showa Denko	910	+7
Snow Brand Milk	1,260	.....
Sony	5,230	+160
Stanley Electric	1,140	+10
Sumitomo B'lite	962	−3
Sumitomo Bank	3,500	−90
Sumitomo Cement	657	+7
Sumitomo Chem	1,040 xc	−20
Sumitomo Corp	1,120	+20
Sumitomo Elect	1,510	+10
Sumitomo Heavy	735	+5
Sumitomo Marine	1,130	−10
Sumitomo Met In	568	+8
Sumitomo Met Mng	1,500	−20
Sumitomo Realty	1,320	.....
Sumitomo Tr & Bk	2,840	−10
Suzuki Motor	780	+23
TDK	4,360	+30
Taisei Corp	930	+10
Taisho Marine	1,070	−10
Taisho Pharm	2,000	.....
Taiyo Fishery	640	+2
Taiyo Kobe Bank	1,490	−10
Takara Shuzo	940	+10
Takeda	2,650	+50
Tanabe Seiyaku	2,070	−10
Teijin	845	+7
Teikoku Oil	905	−16
Toa Nenryo Kyo	1,860	+30
Tobishima	1,220	+10
Toho	29,000	+300
Tokai Bank	2,310	+10
Tokai Carbon	656	−13
Tokio Marine	1,900	+10
Tokyo B'casting	2,500	−50
Tokyo Electric Pwr	5,590	.....
Tokyo Electron	3,000	.....
Tokyo Gas	1,030	.....
Tokyo Rope	2,480	−20
Tokyo Steel	3,900	.....
Tokyo Style	1,790	+20
Tokyu Car	1,210	.....
Tokyu Corp	1,410	−30
Tokyu Land	906	−9
Toppan Print	1,810	+10
Toray	921	−6
Toshiba Elect	962	+32
Toshiba Machinery	655	−1
Toto	2,090	−10
Toyo Construct	759	+30
Toyo Ink	905	+20
Toyo Rubber	660	−4
Toyo Seikan	2,740	+20
Toyo Soda	757	+3
Toyota Motor	2,300	+60
UBE Inds	589	.....
Unitika	532	.....
Victor	2,310	.....
Wacoal	1,170	.....
Yamaha	1,300	.....
Yamaichi Sec	1,840	.....
Yamanouchi	3,850	.....
Yamatake H'ywell	1,650	.....
Yamato Trans	1,490	.....
Yamazaki Baking	1,510	.....
Yasuda Fire	1,060	.....
Yasukawa Elect.	745	.....
Yokohama Rubber	832	.....
Yoshitomi Pharm	1,170	.....
Yuasa Battery	788	.....

AUSTRALIA

June 29	Aust$	+ or −
A.F.P.	0.86	.....
Adelaide Steams	6.20	.....
Amcor	4.79	+0.04
Ampol Ltd.	3.60	.....
Ariadne Aust.	0.23	−0.01
Ashton	1.55	−0.11
Aust Nat Inds	1.78	.....
ANZ Group	4.55	+0.07
Bell Group	2.50	+0.05
Bell Resources	1.64	.....
Bond Corp Hldgs	2.08	+0.06
Boral	4.55	+0.05
B'ville Copper	4.05	+0.01
Brambles Inds	9.36	+0.16
Bridge Oil	0.96	−0.06
BHP	8.06	.....
BHP Gold	0.84	−0.01
Burns Philp	3.45	.....
CRA	8.80	+0.3
CSR	4.70	+0.12
Chase Corp	0.88	−0.02
Claremont Petro	0.29	+0.01
Coles Myer	9.50	+0.1
Comalco 'A'	4.47	−0.03
Consolidated Pet	0.23	−0.01
Costain Aust.	3.80	.....
Elders IXL	3.04	+0.02
Energy Res	2.80	.....
Gen Prop Trust	2.90	+0.02
Goodman Fielder	2.75	+0.07
Hardie (J)	3.15	+0.05
Hartogen Energy	1.55	.....
ICI Aust	6.76	+0.02
Industrial Equity	1.80	+0.09
Jones (David)	9.30	.....
Kia Ora Gold	0.32	.....

AUSTRALIA (continued)

June 29	Aust$	+ or −
Kidston Gold	4.20	+0.03
Lend Lease	13.40	+0.2
MIM	1.92	−0.01
Mayne Nickless	6.20	−0.02
Nat. Aust. Bank	5.80 xr	+0.06
News	11.40	+0.15
Noranda Pacific	0.80	−0.08
North Bkn Hill	3.28	+0.06
Oakbridge	0.22	+0.01
Pacific Dunlop	4.30	+0.1
Pancont'l	2.20	+0.05
Pioneer Conc	3.02	+0.02
Placer Pacific	2.38	+0.08
Poseidon	2.40	−0.02
Queensland Coal	1.26	.....
Santos	4.20	+0.05
Smith (H.)	3.10	+0.1
Thos Natwide	4.45	+0.2
Tooth	9.00	.....
Vamgas	3.10	.....
Western Mining	6.06	+0.08
Westpac	6.34	+0.16
Woodside Petrol	1.93	.....
Woolworths	3.33	+0.03
Wormald Intl	1.82	−0.01

HONG KONG

June 29	H.K.$	+ or −
Bank East Asia	17.60	−0.2
Cathy Pacific	8.45	.....
Cheung Kong	7.65	−0.05
China Light	17.70	−0.1
Evergo	0.52	−0.02
Hang Lung	5.40	−0.1
Hang Seng Bank	28.00	−0.1
Henderson Land	5.50	−0.05
Hongkong China	17.80	−0.1
HK Electric	7.40	.....
HK Land	7.55	−0.05
HK Shanghai Bank	6.15	.....
HK Shanghai Hotels	4.95	−0.15
HK Telecomms.	7.10	.....
Hutchison Wpa	8.90	−0.1
Indust. Equity P	12.70	−0.2
Jardine Math	12.80	.....
New World Dev	11.30	+0.1
SHK Props	11.40	.....
Shell Elec. Mfg	1.30	−0.02
Swire Pac A	18.30	−0.2
TV-B	13.30	.....
Wharf Hldgs	7.95	.....
Winsor Ind	10.00	−0.1
World Intl Hldgs	3.47	−0.03

SINGAPORE

June 29	S$	+ or −
Boustead Hldgs	1.61	+0.01
Cerebos Pacific	5.65	+0.1
Cold Storage	4.00	+0.04
DBS	8.65	−0.15
Fraser & Neave	9.00	−0.05
Genting	5.65	+0.1
Haw Par Bros	3.58	+0.02
Hong Leong Fin	2.78	+0.01
Inchcape Bhd	5.95	+0.05
Keppel Corp.	2.58	+0.01
Malayan Banking	5.30	.....
Malayan Utd Ind	1.72	+0.04
Multi Purpose	0.73	+0.08
OCBC	8.30	.....
OUB	3.46	+0.02
Public Bank	1.41	+0.01
Sime Darby	3.28	.....
Singapore Air	11.30	.....
Singapore Press	7.35	.....
Straits Trading	3.84	+0.02
Tat Lee Bank	3.14	.....
UOB	5.15	+0.05

NOTES – Prices on this page are as quoted on the individual exchanges and are last traded prices. (u) unavailable. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

CANADA

TORONTO
2pm Prices June 29

OVER-THE-COUNTER

Nasdaq national market, Closing prices June 29

Continued from page 39

Stock	Div.	Sales 100s	High	Low	Last	Chng
SEI	.05e	24 1707	u21½	21	21	− ⅛
SHL Sy s		218	8⅝	8⅝	8⅝	− ¼
SKF AB1.73e		141	49¼	48⅞	48⅞	−1
Selecrd		8 1138	6⅞	6⅝	6⅝	
Safeco	1.08	7 1522	25¼	25	25	− ⅛
SagHbr		20	14½	14½	14½	+ ⅛
Sahlen		13 4325	2⅝	2 7-16	2 9-16	+1-16
StJude		20 1058	37⅛	36¼	36¾	− ⅝
StPaulB	.30	115	11⅛	10⅞	10⅞	− ⅛
StPaul s	2	6 782	43¼	42½	42½	− ¾
Salick		22 60	15¼	15	15	− ⅛
SFFdl		4 27	12½	12½	12½	− ½
Sanfrd s	.16	12 2	25⅞	25⅛	25⅞	+ ⅛
Scherer	.36	26 681	27¼	27	27⅛	− ⅝
StrucDy		25 5	18	18	18	
Stryker		26 98	23	22½	22½	
StudL vt		192	74⅞	74¾	74⅞	+ ½
Subaru		4528	6⅝	6	6⅝	+ ¼
SubFin	.10j	775	7½	7⅜	7½	− ¼
Sumgph		306	14½	13¾	14	− ½
Sumorp	.40	11 162	u22⅞	22¼	22⅝	+ ⅝
SumiB	.72b	11 190	22⅝	22½	22⅝	+ ⅛
SunGrd		22 152	19	18¾	18¾	− ½
SunMic		26 5224	38	37¼	37½	− ¼
Sunwst s	1a	8 1	24¼	24¾	24¼	− ¼
Systin		6 25	5⅝	5⅝	5⅝	
SySoftw		25 321	21	19¾	20	− ¾
Systml	.40a	28 36	33	32¾	32¾	− ¼
UnTelev		45 172	32	31¼	31¾	
UnivFr	.12	14 172	17⅛	17	17¼	+ ⅛
UnvHlt		233 241	7⅛	6⅞	7	
UnvSvg	.40	81 33	22⅝	22⅝	22⅝	+ ⅛
— V — V —						
V Band	1e	5 221	15⅛	14½	14¾	− ⅛
VLSI		47 634	10⅝	10⅞	10½	− ⅛
VM Sft		31 321	16½	15¼	15¾	+ ¾
VWR	.80	13 11	21⅝	21	21	
ValidLg		306 3278	6⅛	6⅛	6⅛	
ValFSL		6 17	12⅝	12⅛	12⅛	
ValNtl	1.44	629	29¼	28⅞	29¼	+ ⅛
Valmnt	.60	10 23	42¼	41	41⅛	− ½
VgrdCl		40	23¼	23⅝	23⅛	− ½
Worthg	.44	18 624	23⅛	22⅞	22⅞	− ⅛
Wyman	.60	13 20	15	14¾	15	
Wyse		11 3097	20⅞	20	20	− ½
— X – Y – Z —						
XL Dt s		18 77	27⅛	26¾	27	+ ⅛
XOMA		305	13½	13	13½	+ ½
X-Rite	.08	19 42	28	27⅛	27½	− ½
Xicor		23 2439	10⅝	10⅛	10½	+ ⅛
Xidex		1443	5⅝	5⅝	5½	
Xylogic		8 24	10	10	10	− ⅛
Xyvsn		154	7½	7⅛	7⅛	− ⅛
YlowF s	.62	17 793	28⅝	27¾	27¾	− ⅝
ZionUt	1.44	5	25⅛	25⅛	25⅛	
Zondvn		32 380	8⅝	8½	8⅝	

CHIEF LONDON PRICE CHANGES YESTERDAY

(Prices in pence unless otherwise indicated)

RISES			
Atlantic Computers	375	+	5
BTR	274	+	5
Berisford(S. & W.)	357	+	6
Cook (Wm.)	192	+	7
Crosby (James)	115	+	8
Dalgety	395	+	6
Dee Corp.	191	+	7
Enterprise Oil	485	+	11
Glaxo	984	+	19
Halma	185	+	10
Laing Props.	496	+	6
Lilleshall	134	+	10
LASMO	465	+	11
Quadrant	220	+	8
Smith New Court	183	+	5
Western Motor	558	+	23
Yale & Valor	372	+	41
FALLS			
Commercial Union	375	−	8½
Brit. Land	332	−	6
Land Securities	589	−	8
MEPC	540	−	6
RHM	394	−	8
Speyhawk	368	−	6
Steetley	325	−	18

TOKYO – Most Active Stocks
Wednesday, 29 June, 1988

	Stocks Traded	Closing Prices	Change on day
Mitsubishi Heavy Ind	208.08m	890	+25
Nippon Steel	168.55m	620	+5
Mitsubishi Elec	149.81m	895	+50
Toshiba	144.11m	962	+32
NKK	143.39m	580	−4
Kawasaki Heavy Ind	142.47m	633	+58
Kawasaki Steel	131.60m	680	+7
Kobe Steel	110.49m	570	+1
Sumitomo Metal	74.87m	568	+8
Mitsui O.S.K.	61.74m	511	+41

INDICES

NEW YORK — DOW JONES

CANADA

NEW YORK ACTIVE STOCKS

Closing prices June 29

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
26⅞	14	AAR s	.38	1.4	22	184	u26⅝	26	26½	+ ½
12⅛	8¾	ACMIn n	1.19e	10.		352	11¾	11½	11¾	+ ⅛
12⅛	10¾	ACMSc n	1.26	11.		391	11¼	11	11⅛	– ⅛
10⅛	9½	ACMSp n				246	9¾	9⅝	9¾	+ ⅛
27⅞	10½	AGS			21	694	27⅛	27	27⅛	– ⅛
7⅞	2⅝	AMCA				56	4⅛	4	4⅛	– ⅛
8⅝	3¼	AM Intl				7402	5½	5	5⅛	+ ⅛
29⅝	17	AM Int pf	2	9.8		754	20⅞	20½	20½	– ⅛
65½	26¾	AMR			12	4178	49⅝	48⅝	49	
27⅛	25	ANR pf	2.67	10.		6	25½	25⅜	25½	+ ⅛
11⅛	5¾	ARX			11	19	8⅜	8⅜	8⅜	
72⅞	40¼	ASA	3	7.1		682	42¼	42	42¼	– ½
22⅞	9½	AVX	.08e	.3	14	374	19	18½	18½	– ⅞
68⅛	40	AbtLab	1.20	2.7	18	4482	46¼	44⅞	44⅞	– ⅛
28	15⅞	Abitibi g	1			33	19	18⅝	18⅝	– ⅛
16¾	8½	AcmeC	.40	3.5		73	11½	11¼	11⅜	– ⅛
10½	6⅝	AcmeE	.32b	4.7	21	25	7	6⅞	6⅞	
20	14½	AdaEx	3.05e	19		64	16	15⅞	16	+ ⅛
19¼	6⅞	AdamMl	.24	1.5	13	13	15½	15½	15½	
24⅞	7½	AMD				5298	16⅞	16¼	16¼	– ½
56¾	29¼	AMD pf	3	6.9		70	43½	43¼	43½	+ ⅛

Continued on Page 39

NYSE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
Continued from previous Page										
54¾	29⅝	Raycm	a.24	.5	17	1930	50⅝	49½	49⅝	− ⅛
20¾	8⅝	RJamFn	.16	1.6	11	21	10	9⅞	9⅞	− ⅛
22¾	14⅝	Raycnr	2.60	13.	8	41	20	19⅝	19⅝	− ⅜
13	5	Raytch	.08e	.9	60	10	6⅛	5⅞	5⅞	− ⅛
84⅞	57¼	RayThn	2	3.1	10	862	65¾	65⅜	65⅜	− ⅜
7½	1⅛	ReadBt				138	1⅜	1⅛	1⅛	
13⅝	3⅛	RdBat pf				5	4⅛	4	4	− ⅛
20½	14¼	REIT	1.34	8.1		33	16⅝	16½	16⅝	+ ⅛
20½	6¾	RecnEq			14	1336	8⅝	7⅞	8⅛	+ ½
12	6¾	Redmn	.36	4.8		655	7⅞	7⅝	7⅝	+ ⅛
23	7	Rebok s	.30	1.8	11	11301	17	16⅜	16⅞	+ ⅝
16	8¼	Reece	.10e	.9	16	2	11½	11½	11½	− ½
2½	13-32	Regal				12	13-32	13-32	13-32	− 1-32
7⅞	4⅛	RegIFn	.25g	3.8		144	6½	6½	6½	
17⅞	11	ReichTg	1.76	11.	10	6	15⅞	15⅞	15⅞	+ ⅛
11½	4½	RelGrp	.24	4.1	4	63	5⅞	5¾	5⅞	+ ⅛
8⅛	4⅞	RepGyp	.36	6.7	24	42	5½	5⅜	5⅜	− ⅛
55¼	35¼	RepNY	1.20	2.8	256	367	43½	43½	43½	− ½
61⅞	28	RayMtl	.80	1.6	11	3700	51½	50⅝	51	+ ½
22¾	8⅛	Rhodes	.40	1.9	15	134	21½	21	21⅛	− ⅛
46¼	28½	RiteAid	.74	1.9	15	726	38	37¼	38	+ ¾
1⅛	½	RvrOak				112	11-16	⅝	⅝	
20¼	11½	Robtsn			4	222	13⅛	12⅞	13	− ⅛
29⅝	12¼	vjRobins			13	275	25⅛	24⅞	25	+ ⅛
18⅝	14¼	RochG	1.80	8.3	12	112	18	17⅞	18	+ ⅛
49¾	37	RochTl	2.72	5.9	14	289	46⅞	46	46⅞	− ⅝
12⅞	5⅝	Rckwy	.36	3.7	13	285	9⅝	9½	9⅝	+ ⅝
20⅛	14¼	RckCtr	1.64	8.9	14	629	18⅝	18⅛	18⅛	− ⅛
29⅞	14¼	Rockwl	.72	3.5	8	2219	20⅞	20⅛	20⅛	− ⅝
10½	4⅞	RodRen	.14e	2.2		10	6½	6½	6½	
53¼	24	RohHaas	.92	2.7	12	571	34¼	33⅝	34	+ ⅛
39	12¾	Rohr			15	412	32⅞	31⅝	31¾	+ ⅛
26⅞	11½	RolinsE	.08	.4	27	3943	20½	19⅞	20	− ⅛
[illegible]										
− X − Y − Z −										
65	50	Xerox	3	5.5	10	2273	54⅝	53⅞	54½	+ ⅝
35¼	19⅛	XTRA	.64	2.0	16	57	31½	31½	31½	
29⅜	19½	XTRA pf1.94		7.2		125	27	26⅞	27	− ⅛
55⅞	17½	Yorkin			18	2181	55⅝	55½	55½	− ⅛
7¼	2¼	Zapata				73	3	2⅞	2⅞	− ⅛
37	13½	Zayre	.40	1.9	11	1411	20⅞	20⅛	20⅝	+ ⅛
33⅝	10	ZenithE				2366	27⅞	25⅝	26⅝	
10¼	9⅞	Zenitr n	.05e	.6		173	10	9⅞	10	
10⅝	1	vjZenLb				400	1⅞	1⅝	1¾	+ ⅛
24	13½	ZenNtl	.80b	3.6	10	125	22¾	22½	22½	− ¼
20⅜	11⅝	Zero	.40	2.6	14	20	15⅛	15	15⅛	+ ⅛
30⅜	15	Zurnin	.68	3.4	13	382	21	20	20	− ⅞
11¼	7⅝	Zweig	1.05e	9.7		501	11	10⅞	10⅞	− ⅛

Sales figures are unofficial Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

Closing prices June 29

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]							

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OVER-THE-COUNTER

Nasdaq national market, 3pm Prices June 29

Stock	Div.	Sales 100s	High	Low	Last	Chng
[illegible]						

Continued on Page 37

FINANCIAL TIMES

Thursday June 30 1988

AMERICA

Dow falls despite Midwest rain and strong currency

Wall Street

POSITIVE influences were shrugged off yesterday by both equity and bond markets which registered modest declines, *writes Janet Bush in New York.*

The Dow Jones Industrial Average recovered from a loss of 20 points in early afternoon trading to close 8.89 points lower at 2,121.58. Volume was fairly modest with around 160m shares traded.

US Treasury bond prices started lower, reflecting weakness in overseas trading, and those losses were extended during the New York session. By late trading, the Treasury's benchmark 30-year issue was quoted ⅛ point lower for a yield of 8.91 per cent.

Among potentially positive factors for US securities markets were a sharp fall in agricultural commodity futures prices after Tuesday's rain in the drought-ridden Midwest. The Commodity Research Bureau's futures index, which has been the most closely watched indicator for some weeks in the bond market, fell more than six points yesterday as most grain futures contracts opened limit down on the Chicago Board of Trade and July futures plunged.

Another positive factor was the dollar's resilience in the face of a second round of intervention by European central banks yesterday. Despite reported dollar sales by European central banks, the US currency still rose to day's highs of Y134.05 and DM1.8330 although it dipped off these peaks in late trading in New York.

Both bond and equity markets have responded erratically and sluggishly to better news on commodity prices and the dollar.

One reason for this is longer-run concerns about international policy amid talk of disagreements within the Group of Seven leading industrial nations. It has been noticeable that, while the Bundesbank has appeared to lead central bank dollar selling, the Bank of Japan has been absent.

It is believed that the West German authorities are irritated with US demands for stable interest rates abroad at the same time as wanting an appreciating dollar. West Germany is believed to be concerned to reverse substantial outflows from its securities markets and from the D-Mark, some of which has been in favour of the dollar.

Uncertainty about international policy always tends to exert a damaging influence on financial markets.

Perhaps a more pressing problem, however, is the continuing lack of domestic institutional commitment to either stocks or bonds. The dollar-related rallies in both markets recently brought in some overseas buying but that did not translate into heightened domestic investment.

Two economic indicators released yesterday were, if anything, a slight negative for the bond market. Single family home sales fell 0.3 per cent last month, somewhat less than expected. Leading indicators for May fell 0.1 per cent, within expectations, but the rise in April's indicators was revised to 0.5 per cent from 0.2 per cent reported previously.

In equities, blue chip issues were mostly lower. Merck was quoted $¼ lower at $54¾, American Telephone & Telegraph fell $¼ to $26¾, General Electric lost $⅞ to $43 and Proctor & Gamble was quoted down $¾ at $76.

Bally Manufacturing added $1⅛ to $21⅝ after the company said it was discussing a major restructuring with its investment bankers. Centel Corp rose $⅞ to $45⅞ as the company claimed victory in its proxy fight with shareholders led by Mr Asher Edelman, the New York investor.

Canada

FALLING gold issues led a retreat in Toronto as share prices declined in active trading at the close.

The composite index, which had risen about nine points in earlier trading, lost 3.1 to 3,430.1 as declines outpaced advances by 459 to 332 on heavy volume of 28.2m shares.

Nova led the list of most actives, climbing C$⅛ to C$14⅞. Varity rose 35 cents to C$4⅞.

Gold issues declined. Hemlo dropped C$⅝ to C$14⅝, Placer Dome lost C$⅛ to C$24⅞ and Lac Minerals fell C$⅛ to C$13⅞.

Simmering casseroles still need attention

UNTIL this month, French stockbrokers were openly proud of the extent and speed of the reform they had carried out of the third largest European stock exchange.

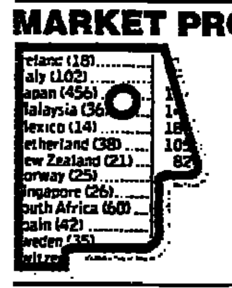
From the development of a new electronic trading system, through the introduction of new instruments such as financial futures and traded options, to the opening up of the capital of stockbroking firms, the bourse had changed its spots.

However, the scandal that erupted on June 10 over the loss of a third of the exchange's reserve funds has taken the lid off a number of other simmering casseroles where the bourse, which has a market capitalisation of FFr934.8bn ($153bn), still needs radically to change its practices.

Mr Xavier Dupont, who was forced to resign as stock exchange chairman in the wake of the scandal, had carefully managed the market's shift to continuous trading so that it would remain as close as possible to the traditional fixing system of the Paris bourse.

This had the advantage of comforting small shareholders, who have quadrupled in number to 6m since the privatisation programme of the Chirac Government of 1986-88.

MARKET PROFILE



Paris

It was much less effective, however, for leading institutions trading larger blocks of shares. Demand from these institutions has created a parallel system that resembles the market makers of London or New York, even if this means at times flouting stock exchange regulations.

As the new stock exchange chairman, Mr Régis Rousselle, comes from one of the leading market making firms in Paris, most brokers expect him to help develop the institutional side. In the meantime, the market needs to update its rulebook in order to bring theory into line with every-day trading practice.

The bourse operates almost throughout the day, with a morning session from 9.30 am to 11 am, a main session from 12.30 pm to 2.30 pm or later, continuous electronic trading in an increasing number of stocks from 10 am to 5 pm and continuous floor trading in underlying stocks of the traded options market from 10 am to 3 pm. After-hours trading takes place until about 6 pm.

The market is controlled primarily by stockbrokers, but reforming legislation is allowing banks and other investors to buy progressively into broking firms, with 100 per cent ownership permitted from January 1990.

At the start of this year, there were 481 full French listings in Paris, 169 on the second market and 207 foreign listings. The continuous market, which carried 120 stocks at the end of last year, has now been extended to bonds and aims to cover all leading equities by the end of this year.

Foreign investors require government approval to take their stakes in French companies above 20 per cent, although holdings over that level are not allowed in newspaper publishers except by European Community companies. Declaration thresholds for all investors are at 5 per cent, 10 per cent, 20 per cent, 33.3 per cent and 50 per cent. Investors are obliged to declare their intentions for the following 12 months when they reach 10 per cent and some companies have additional declaration requirements.

Most shares have single voting rights. Many companies have double voting rights for shares that have been held in the same name for a certain length of time. Others – mostly, but not exclusively, nationalised or former nationalised companies – have issued certificates of investment without voting rights.

Settlement takes place on the main market at the end of the monthly account, and on the cash market takes place two days after the transaction. Computerised delivery of most bearer shares takes place through the Sicovam clearing house. A new computerised settlement system is planned for the end of 1988.

A withholding tax of 16.25 per cent is levied on dividends, although certain countries have double tax treaties – the UK, for example, where investors face a 15 per cent tax.

● A profile of the Amsterdam market appeared yesterday. Madrid will be featured tomorrow.

George Graham

STOCK MARKET FACT CHART
PARIS

Market capitalisation: FFr934.78bn ($1 = FFr6.09, £1 = FFr10.47)
Number of shares listed: 481 domestic, 207 foreign
Top 10 stocks, percentage of market: 23%
Trading hours: morning session – 9.30am-11am; main session – 12.30pm-2.30pm; continuous electronic trading in select stocks from 10am-5pm; after hours trading to 6pm
Average daily turnover, 1988: FFr1.82bn (main, second and cash markets)
Main indices: Indice General CAC Actions Françaises, 240 shares; plans exist to introduce new CAC covering 40 shares
Current level of index (CAC General): latest figure available 343.8 (21/6) because of technical problems; 1988 high: 353.6 (15/6); 1988 low: 251.3 (29/1)
Settlement: end of monthly account

Address: Société des Bourses Françaises, 4 Place de la Bourse, [illegible] Paris. Tel: (331) [illegible]

EUROPE

Resilience of dollar proves a welcome tonic

THE stronger dollar and gains in Japan and New York helped counter interest rate fears yesterday and most European bourses closed higher, *writes Our Markets Staff.*

FRANKFURT bounced back from two days of decline as Wall Street and Tokyo moved ahead and the dollar rebounded, boosting the leading West German exporters.

Analysts said the likelihood of the Bundesbank council raising the discount rate at its weekly meeting today had now been taken into account in prices and investors were viewing it as a potentially positive development if it helped to stabilise exchange rates. There was, however, some nervousness over whether the repo rate would be raised again early next week.

Bargain-hunting lifted the FAZ index 3.1 to 472.78 in slightly higher national volume of DM2.7bn worth of German shares.

Siemens, the electronics leader, rose a strong DM16 to DM417.50 on buying by local investors, notably the banks. There were reports in the market that local brokers had been revising profit estimates for the company.

Preussag, the metals processor which held its annual meeting yesterday, added DM7.30 to DM174.50, while retailer Massa gained DM9.30 to DM335.50 after news of an unchanged DM10 dividend and a one-for-four rights issue.

Bonds were mixed before today's Bundesbank meeting, with the yield on the 6½ per cent 1998 federal bond at 6.66 per cent after 6.64 per cent on Tuesday.

PARIS opened stronger, rose further on optimism over gains on Wall Street and in Tokyo, but fell back slightly in the afternoon amid concern over international interest rates.

Trading resumed in blue chip stocks underlying the Monep options market after technical problems on Tuesday, but the CAC General index and volume figures were still unavailable. The Indicateur de Tendance closed 0.2 higher at 133.2.

Corporate news boosted such stocks as Peugeot, up FFr25 at FFr1,247 after confirming its forecast of a sharp rise in 1988 pre-tax profits. Insurer Midi slipped FFr10 to FFr1,260, with the speculative element of trading having faded, analysts said, after the Paris court ruling last week which limited the voting rights of Generali of Italy.

News of a reduction in the country's May trade deficit was as expected, as was the overall composition of the new French cabinet, and both had little impact on the market.

MILAN fell back slightly after a strong start in moderate activity as investors awaited results from the Fiat annual meeting. The Comit index eased 0.67 to 506.19.

News that Deutsche Bank held only a 2.5 per cent stake in the Italian car group after its 1986 underwriting operation was seen by analysts as positive for the share price, weighed down recently by fears of an overhang of stock on the market. The forecast of a 12 per cent rise in sales this year was also regarded as good news, and the share price rose L50 to L9,339, only to ease back to L9,290 after hours.

ZURICH ended higher in moderate trade, buoyed by the firmer dollar and gains in New York. But interest rate worries continued to linger.

London

BLUE chips saw little demand overall in a generally dull day's trading as leading institutions sat on the sidelines, assessing the implications of the hike in UK interest rates.

The food sector buzzed with rumours at one stage, but those died down after a series of denials and the FT-SE 100 index ended the day down 1.8 at 1,855.1.

Nestlé, which said it now controlled 52.15 per cent of Britain's Rowntree, saw its bearers put on SFr145 to SFr8,525. Jacobs Suchard, which should see its annual profits boosted by income earned on the sale of its Rowntree stake to Nestlé, rose SFr65 to SFr7,580.

AMSTERDAM reacted to Wall Street's overnight rise and the strength of the dollar with a broad rally in moderate trade.

The weighted ANP-CBS General Index rose 4 to 263.6. Investors ignored speculation that lending rates in West Germany and the Netherlands could be raised today.

Philips, announcing a joint venture with China's Shanghai Radio Factory, was the most active stock, with over 742,000 shares traded, rising 50 cents to Fl 32.60.

Fokker, the aircraft maker, announcing an agreement with an Indonesian aircraft company to co-produce jet components, picked up 30 cents to Fl 23.90.

BRUSSELS recovered from Tuesday's fall as small investors ventured off the sidelines, encouraged by the firmer dollar, the overnight rise on Wall Street and optimistic forecasts for leading companies in the local press.

Two of these companies, retailer GB-Inno and steelmaker Cockerill, rose BFr10 to BFr1,274 and BFr12 to BFr245 respectively.

Electrafina, the energy holding company, moved up BFr150 to BFr7,290. It announced details of its one-for-four rights issue, to be priced at BFr6,550.

STOCKHOLM finished a quiet day slightly higher, following the overnight gain on Wall Street and the firming of the dollar.

The Affärsvärlden index rose 4 to 853.7 in weak volume.

Some issues attracted a flurry of activity. A large block of shares was traded in Astra, the pharmaceuticals company, which closed SKr3 up at SKr190, while SKF, the ball bearings maker and a focus of stake-building rumours, moved higher for the third session running, adding SKr1 to SKr305.

MADRID closed higher after a mixed session, with the general index rising 1 to 297.58.

Telefónica resumed its upward course, adding 7.25 percentage points to 204.75 per cent of par on strong foreign demand. Banesto was traded again after being suspended for a day for not properly informing the bourse of a planned rights issue, and the stock lost 175 to 1,230.

High-tech exporting stocks lift Nikkei as yen slides

Tokyo

THE YEN'S further slide against the dollar prompted investment trusts to buy high-technology exporting stocks in Tokyo yesterday, lifting the Nikkei average for the first time in four sessions, *writes Shigeo Nishiwaki of Jiji Press.*

The Nikkei average closed a sharp 209.24 higher at 27,607.33. Volume remained high at 2.29bn shares, though down from the previous day's 2.53bn. However, declines slightly outnumbered advances by 477 to 449.

The dollar surged above Y133 to hit a high for the year on the Tokyo foreign exchange market. Its strength, which makes Japanese exports less expensive, led Nomura and other leading investment trust management companies to buy a broad range of export-oriented electricals for incorporation in their newly established trust funds. The total amount of such funds is estimated at Y800bn, of which Y450bn is for stock purchases.

This move later stimulated individuals and business corporations to seek export-led stocks. Among the best performers were heavy electricals: Toshiba, which saw 144.11m shares traded, climbed Y32 to Y962. Mitsubishi Electric rose Y50 to Y895 and Hitachi gained Y50 to Y1,470.

Electricals priced at less than Y1,000 also attracted buying interest and leading, high-priced, high-tech issues made sizeable gains.

Lagging shipbuilders and some car manufacturers were sought. Mitsubishi Heavy Industries headed the active stock list, with 208.1m shares traded, strengthening Y25 to Y890.

Giant-capital steels, the best performers recently, showed wide fluctuations. Some market participants forecast that high-priced blue chips might soon become the most popular stocks, in place of steels and shipbuilders. However, leading brokerage houses said they were uncertain about the market outlook.

Bonds moved within wide limits in step with currency movements. Remarks by Mr Kiichi Miyazawa, the Japanese Finance Minister, caused the market to fall in disappointment. He indicated the Japanese monetary authorities would allow the yen to depreciate. In late trading, however, the market rallied on rumours that the Finance Ministry might decide not to issue 10-year government bonds in July.

The yield on the benchmark 5.0 per cent government issue maturing in December 1997 closed at 4.90 per cent in block trading on the Tokyo Stock Exchange, compared with the previous day's 4.87 per cent.

On the Osaka Securities Exchange, equities rallied strongly for the first time in four trading days, aided by buying of high-tech issues, with the OSE stock average gaining 111.91 to 27,737.90. Volume decreased by 45m shares to 139m.

Australia

LATE buying led to higher stock prices for the first time this week as institutions and overseas buyers sought gold and base metal stocks, in spite of weaker gold prices. The All Ordinaries index climbed 16.2, or 1 per cent, to 1,560.8.

Domestic institutions sought blue chips to boost the value of their equity portfolios before closing their books tomorrow.

AFP Investments saw 28.5m shares traded, of which 27.9m worth A$22.65m went through in a special sale, prompting rumours that Mr Abe Goldberg had sold his stake. AFP fell 1 cent to 87 cents.

Singapore

EARLY buying by retailers and institutions, spurred by gains on Wall Street and in Tokyo, helped boost equities, and share prices closed higher with later sporadic profit-taking well absorbed.

The Straits Times industrial index rose 5.77 to 1,085.38 in hectic trading of 74m shares.

Hong Kong

OVERSEAS sellers emerged after a strong opening, amid concern about the possible effect of recent interest rate rises on property prices, taking the Hang Seng index down 13.24 to 2,648.22.

Local traders followed suit, selling in response to the ½ point hike in the prime rate to 8½ per cent on Monday.

● SOUTH Korean shares rebounded strongly amid optimism that the recent downward correction was at an end. The composite index rose 14.5 to 700.

SOUTH AFRICA

UNCERTAIN trading in Johannesburg yesterday left gold stocks narrowly mixed to marginally firmer, in spite of a further decline in the bullion price. The financial rand closed sharply weaker as the dollar strengthened.

Vaal Reefs gained R3 to R264, while Randfontein lost R3 to R257. Diamond share De Beers was up 80 cents at R38.30.

FT – ACTUARIES WORLD INDICES

Jointly compiled by the Financial Times, Goldman, Sachs & Co., and Wood Mackenzie & Co. Ltd., in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	WEDNESDAY JUNE 29 1988					TUESDAY JUNE 28 1988			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1988 High	1988 Low	Year ago (approx)
Australia (88)	139.28	-0.8	121.01	117.09	3.82	140.43	121.12	115.82	150.35	91.16	134.73
Austria (16)	84.53	-0.7	73.44	80.17	2.57	85.10	73.40	79.68	98.18	83.72	86.91
Belgium (63)	118.18	-1.1	102.67	111.91	4.50	119.50	103.06	112.13	139.89	99.14	120.58
Canada (125)	126.59	-1.0	109.98	111.60	3.02	127.93	110.34	111.86	128.01	107.06	128.49
Denmark (39)	127.14	-0.8	110.46	120.00	2.42	128.20	110.57	119.97	132.72	111.42	116.64
Finland (25)	131.27	-1.1	114.05	119.24	1.76	132.73	114.47	119.19	139.53	106.78	-
France (126)	94.72	-0.7	82.30	91.57	3.55	95.39	82.27	91.16	99.62	72.77	107.00
West Germany (99)	74.29	-0.3	64.55	70.64	2.63	74.55	64.29	70.11	80.79	67.78	96.26
Hong Kong (46)	106.25	-0.7	92.31	106.43	4.30	107.00	92.29	107.14	109.20	84.90	125.43
Ireland (18)	134.97	-0.6	117.26	129.20	3.67	135.85	117.15	128.80	144.60	104.60	131.30
Italy (102)	70.49	-1.3	61.24	71.39	2.81	71.42	61.59	71.52	81.74	62.99	97.12
Japan (456)	159.95	-1.6	138.96	135.18	0.53	162.52	140.17	134.47	177.27	133.61	140.18
Malaysia (36)	152.38	+0.1	132.38	153.20	2.98	152.22	131.28	152.13	152.38	107.83	170.89
Mexico (14)	167.88	-0.7	145.85	419.05	1.19	169.04	145.79	422.31	180.07	90.07	238.75
Netherland (38)	103.67	-0.2	90.06	97.59	4.74	103.87	89.58	96.61	110.66	95.23	123.09
New Zealand (21)	78.47	-1.5	68.17	61.76	5.78	79.68	68.72	61.57	84.05	64.42	98.34
Norway (25)	122.68	+0.1	106.59	109.13	2.74	122.51	105.66	108.79	129.83	98.55	140.87
Singapore (26)	123.01	-0.3	106.87	116.01	2.16	123.42	106.44	115.63	123.42	97.99	145.84
South Africa (60)	121.06	-0.3	105.18	88.21	4.98	121.36	104.67	87.70	139.07	118.16	157.25
Spain (42)	151.09	-0.7	131.27	139.19	3.15	154.97	133.65	140.41	164.47	130.73	122.10
Sweden (35)	116.56	-0.5	101.27	108.24	2.64	117.14	101.03	107.86	125.50	96.92	112.68
Switzerland (55)	78.99	-0.4	68.63	74.22	2.31	79.31	68.40	73.55	86.75	75.60	97.73
United Kingdom (327)	131.73	-0.8	114.44	114.44	4.33	132.75	114.49	114.49	141.18	123.09	149.66
USA (576)	110.60	-0.4	96.09	110.60	3.55	111.08	95.80	111.08	112.27	99.19	123.96
Europe (1010)	105.28	-0.8	91.47	96.31	3.73	106.10	91.51	96.14	110.82	97.01	121.68
Pacific Basin (673)	156.99	-1.5	136.39	133.19	0.73	159.44	137.51	132.50	172.26	130.81	139.35
Euro-Pacific (1683)	136.33	-1.3	118.44	118.47	1.67	138.13	119.13	117.98	147.53	120.56	132.32
North America (701)	111.45	-0.5	96.83	110.68	3.52	111.98	96.58	111.15	113.08	99.78	124.20
Europe Ex. UK (683)	88.84	-0.8	77.19	85.01	3.19	89.54	77.23	84.68	92.99	80.27	104.32
Pacific Ex. Japan (217)	121.39	-0.8	105.47	108.36	3.95	122.34	105.51	107.84	128.15	87.51	129.21
World Ex. US (1882)	135.87	-1.3	118.05	118.07	1.74	137.64	118.71	117.60	146.49	120.26	132.52
World Ex. UK (2131)	125.51	-1.0	109.04	115.55	2.14	126.80	109.36	115.39	131.77	111.77	127.15
World Ex. So. Af. (2398)	126.07	-1.0	109.53	115.63	2.33	127.35	109.84	115.49	132.39	113.26	128.97
World Ex. Japan (2002)	109.81	-0.6	95.40	105.50	3.62	110.46	95.27	105.67	112.43	100.00	123.93
The World Index (2458)	126.05	-1.0	109.51	115.44	2.34	127.32	109.81	115.30	132.38	113.37	129.15

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local).

SECTION IV

FINANCIAL TIMES

SURVEY

Although the Netherlands financial community faces a time of tumultuous change, confidence nevertheless remains high and efficiency in the sector is among the highest in Europe, as **Laura Raun** reports here from Amsterdam.

A period of transition

RARELY in recent years have Dutch banks and other financial institutions been so rocked by events in the sector. Europe's first major cross-border bank alliance, incipient hostile takeover battles, the Amsterdam Stock Exchange's "rolling Big Bang" and the capital markets' liberalisation are profoundly reshaping the landscape of financial markets.

Looming ahead are the barrier-free Europe of 1992 and tighter bank supervision and behind it are the equity crash of 1987 and Third World debt.

The Netherlands' financial community is reacting somewhat belatedly to fundamental changes that began several years ago and were felt most strongly in the UK and US. Now deregulation, consolidation and foreign competition are hitting the Netherlands in full force. The alliance between Amsterdam-Rotterdam (Amro) Bank and Generale Bank of Belgium is perhaps the most symbolic response yet to the changes.

One of the most important trends is "the emergence of street-fighters in London and New York with a commercially extroverted attitude, which has resulted in the disappearance of a lot of traditional Dutch business to these markets," observes Mr Robert Weaver, a sales manager in charge of financial products at Thorn/EMI's Software Sciences subsidiary in Amsterdam.

"Their attitude . . . is a result of Government-imposed regulations, dealing at own account and not just on behalf of a client's risk, and cultural history."

Compared with financial institutions in the rest of the European Community, the Dutch are among the most efficient, according to the Cecchini Report, a seminal study of the economic implications of the single market of 1992. The report concludes that prices of financial services in the Netherlands – most notably insurance – will fall relatively little because markets already work well.

The Netherlands has long boasted of free capital flows and welcomed foreign financial institutions. Competition has heightened in recent years amid the globalisation and liberalisation of financial markets.

That is not to say markets are perfect, however. Cosy cartels continue among banks and the European Commission is investigating whether these price pacts restrain trade.

The October equity crash appears to have caused less damage than originally was feared in the Netherlands, although losses were suffered, and one *hoekman* (floor specialist) firm was rescued.

Third-world debt remains relatively less of a problem for Dutch banks than for many, but the Dutch Central Bank, in its 1987 annual report, cautioned against complacency.

International supervision of banks is being tightened by the European Community as well the Bank for International Settlements (BIS). Both have imposed more stringent capital requirements, which must be in place by 1992.

The Dutch have higher aspirations, however. Amsterdam would like to see itself as the leading financial centre on the continent, straddling the gap between the Far East and London. An internationally-oriented stock exchange, sophisticated capital markets and thriving options exchange are supposed to be its weapons.

Amsterdam bankers were, therefore, shocked when two foreign institutions – Schroders and Credit Suisse-First Boston – won prestigious contracts to advise on the privatisation of DSM, the state-owned chemicals company. Equally shocking was Credit Suisse-First Boston's move to break the stranglehold on the capital markets wielded by the *Klaverblad*, the cloverleaf of leading Dutch banks.

"Because their home basis is small, (Dutch banks) have by definition an unfavourable position compared with banks of bigger EC countries," admit messrs. C.J. Oort and H.J. Schotsman, two Dutch mandarins of the banking world. "They profit not only in less measure from economies of scale, which certainly manifest themselves on a national scale. But also when it comes to big international loans, placing capacity in Euro-issues and attraction of assets they benefit greatly."

Consolidation is the answer for some. Amro and Generale Bank took the lead in February when they unveiled plans to forge a single group within three years.

It would be the largest bank in the Benelux and sixth biggest in Europe. Activities abroad are to be merged while their separate identities are to be maintained at home.

The partners took 9.9 per cent holdings in each other's share capital and planted it in a holding company where they hope it will bloom into a full marriage. Details of the marriage contract have yet to be worked out and both sides are acutely conscious of the legal, financial, political and cultural obstacles.

"We would have fully merged now except for fiscal reasons," Mr Roelof Nelissen, Amro chairman, said privately at the time. But politics and culture could prove even more difficult.

Dutch and French power-sharing in Belgium is no model for Amro and Generale Bank. Also Belgians are feeling under assault by foreigners and it remains to be seen whether Brussels' favourable attitude toward the alliance endures.

Corporate culture is another matter – "French and Latin managers, unless they are exceptionally culturally sensitive, tend to have problems in Anglo or Nordic countries, including the Netherlands," argues Professor Geert Hofstede, who teaches international management at the University of Limburg.

Integration among various kinds of financial institutions is another strategy for bracing themselves against the ravages of competition. Dutch banks and insurance companies can hold no more than 15 per cent in each other's business, unlike elsewhere in Europe where no limits exist.

The Dutch argue, however, that to keep a level field of play, they should have the same freedom to merge. Nederlandsche Bank, the Dutch central bank, has promised discussions soon.

Regardless of size, efficiency is, of course, important – certainly in payments-clearing where Dutch banks collectively lose Fl.100m a year. They are investing heavily now in electronic banking systems to help staunch the losses after years of complacency over new technology.

On the corporate front, consolidation is no less controversial. The Amsterdam Stock Exchange, a rather club-like private association, is in an uproar over possible hostile takeover battles and corporate defences.

Dutch companies desperately fear attack by foreign corporate raiders, if they let down their notorious defences. Nevertheless, the Stock Exchange tried to impose a limit on anti-takeover defences. Then the limit was withdrawn – and now the Bourse is embarassingly confused. Equally worrisome is that clandestine meetings were held where attendants were sworn to secrecy over matters that affect public shareholders.

There are no binding game-rules for regulating mergers, only a voluntary merger code. Dawn raids are possible since investors do not have to bother to report stakes in companies, no matter how large.

But, until now, only one unfriendly bid has succeeded and that one raised eyebrows because it sweetened the terms for dissident shareholders and then extended them to everyone else. Dutch companies arm themselves with iron-clad weapons which are permanent corporate constructions, not temporary ones. These constructions grant substantial control to incumbent management and severely limit shareholders' rights.

The Dutch are tempted to throw up their hands and wait for Brussels to impose EC-wide rules on hostile takeovers, corporate defences and merger procedures. Meanwhile, the Dutch financial industry will be left to sort itself out under a new bill unveiled this month.

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Amsterdam Stock Exchange: its own "rolling Big Bang" is now well under way. (Picture by Ashley Ashwood)

Netherlands
BANKING AND FINANCE

CONTENTS

Looking towards the European barrier-free market in 1992

Commercial banks prepare for intense competition

COMMERCIAL BANKS in the Netherlands have some reason to be proud. They appear to have weathered the stock market crash of 1987 without undue harm and seem fairly prepared for the higher capital ratios of 1992.

Dutch commercial banks and other financial institutions score well in the Cecchini report, a list of sorts of winners and losers in the envisaged single EC market.

But to sit on their laurels would be a mistake and Dutch bankers know it. The barrier-free Europe after 1992 will only intensify the growing competition of recent years.

Protective cartels condoned by the Dutch government may have to go if they are deemed collusionary by the European Commission. Market liberalisation, foreign competition and more demanding customers will require clearer strategies than ever.

"It goes without being said that banking services will be delivered more and more against cost plus small margins," according to two leading dutch bankers, Messrs. C J Oort and H J Schotsman. "Subsidisation of one activity through another appears to be a thing of the past. Charging fees for payments transfers, which began in the Netherlands early this year, must be expanded."

Amsterdam-Rotterdam Bank (Amro), the second largest commercial bank, has taken the lead in laying out its strategy. Its alliance with Generale Bank of Belgium is aimed at forging a single group that will merge their foreign activities and maintain separate identities of their domestic ones. Announced last February, the alliance is to be completed within three years.

Mr Roelof Nelissen, chairman of Amro, elaborated on the plans last month when the two banks were introduced on each other's stock exchanges.

"In addition to separating the wheat from the chaff in the current network, it will lead to further expansion," he explained. "We are conscious that when the time is ripe the alliance will be expanded in terms of a broadening of our clients and products."

Greater efficiency is supposed to result from consolidating activities, especially overseas ones, and both banks are supposed to be better defended against hostile takeover attempts. But the two partners have left the door wide open to others to join them on a friendly basis.

Algemene Bank Nederland (ABN), the biggest of the banks, was caught slightly off guard by its arch rival's bold move. "I think the best philosophy is not to run ahead of developments," commented Mr Robert Hazelhoff, ABN chairman. "It's wiser to analyse critically your own position in Europe and then consider whether any steps are necessary."

ABN recently acquired a majority of Irish stockbroker Riada & Co and raised the capital stake in its 80 per cent-owned French subsidiary, Banque de Neuflize, Schlumberger, Mallet(NSM). "Our aim is to have an office in all EC countries within the foreseeable future," Mr Hazelhoff said in March.

NMB Bank, formerly Nederlandsche Middestandsbank, is holding open its options. After rife rumours of an imminent merger with Postbank, NMB angrily denied such plans and then politely explained it was considering several strategies for the future – including mergers.

As the third largest of the commercial banks NMB is deemed most vulnerable, although its earnings record is perhaps better. Its chairman, Mr W E Scherpenhuijsen Rom, more or less put his bank on the auction block last autumn, sparking the rumours.

Commercial banks, which are universal banks, finished 1987 with better than expected results. The stock market crash hurt bank portfolios and commission income but operating costs are starting to come under control.

Despite their good record, the commercial banks cannot afford to sit on their laurels

Net profits of the top three climbed by an average of 11 per cent last year although this was largely due to lower loan-loss reserves. Gross profits rose a more modest 6 per cent.

This year net profits for the trio should edge up about 4 per cent, according to Pierson, Heldring & Pierson, the merchant bank belonging to Amro. Earnings growth should accelerate to 7 per cent next year, Pierson says.

Higher capital ratios by 1992 – as required by the European Community and the Bank for International Settlements (BIS) – will require some fresh efforts but Dutch balance sheets are healthier than many. Last year capital requirements were lifted by the Dutch central bank, which provided the new chairman of the BIS' Cooke Committee on Capital Adequacy.

While Dutch financial institutions come out well in the Cecchini report, some services still need to have the fat trimmed. Retail securities commissions, credit cards and trade credits – surprising in a country where foreign trade is so vital – are all priced way above average.

These larded-up services are likely to be among those currently under investigation by the European Commission for possible restraint of trade. Neither Brussels nor the Dutch Banking Association will reveal which cartelistic price pacts are under scrutiny.

A conclusion is expected by the end of this year, at which time the Dutch Economics Ministry could step in if it feels justice has not been served. The Ministry recently launched a wide-ranging crackdown on cartels in a number of industries.

As it is, Dutch banks – both commercial and savings – agreed to abolish dozens of secret price pacts last January 1. These agreements ran the gamut from charges for account information over the telephone to those for cashing cheques – affecting retail and business customers alike.

With cartels crumbling and the overbanked market offering little growth, commercial banks are increasingly concentrating on cutting costs. Electronic banking, where the Dutch have lagged embarrassingly behind, is becoming more crucial than ever.

Most ripe for cost-cutting is the payments clearing system, which collectively loses Fl 100m a year. Last year, for the first time, commercial banks took the long-delayed step of imposing fees for transfers and other clearing services.

Only because the Postbank – the government-owned bank – moved first did commercial colleagues follow suit. The Postbank dropped its 0.75 per cent interest paid on current accounts because it loses more money than anyone on payments clearing.

Fees alone, however, won't begin to cover the red ink of the clearing system, which is a giro system in which funds are exchanged between financial institutions at the request of customers.

Only in the past few years have bankers begun to admit that something must be done to halt the losses. Before that they had stubbornly insisted that their giro system was among the most efficient in the world.

Finally bankers realised that automatic teller machines (ATMs) worked more cheaply than people and could help prune their bloated branch networks too. Now rather belatedly they are scrambling to automate the payments system and agree on uniform standards for electronic funds transfers (EFT). A national switching centre for EFT is supposed to start early next year, giving universal access to ATMs and electronic point-of-sale (POS) terminals to all bank customers. POS terminals allow direct debting of purchases through a so-called debit card.

The national switching centre will be linked to SWIFT, the international EFT network, which has not lived up to expectations in the Netherlands.

To date about 3m bank identification cards have been issued, around half of the potential market. But fewer than 300 ATMs are in place, most of them belonging to savings banks. The total number is supposed to swell to 600-700 by the end of this year.

More than 400 POS terminals are installed, concentrated around Eindhoven, and that number is expected to jump to 1,000 by the end of 1988.

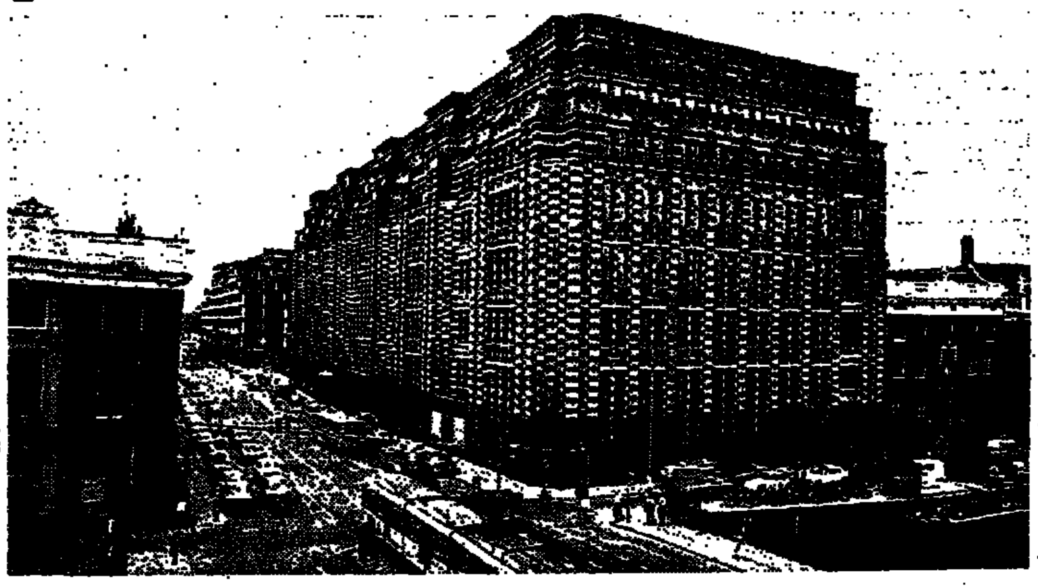
Credit Lyonnais, now the fifth largest commercial bank in the Netherlands, hopes to exploit the gaps in electronic banking. Early next year it plans to introduce its own "smart card," a plastic card embedded with a computer chip, to process and store data. Smart cards have proven a great success in France but have been pooh-poohed by Dutch banks as too expensive.

Corporate clients of Credit Lyonnais will be able to electronically transfer funds, receive account information and possible tap into a databank of corporate credit ratings. Credit Lyonnais, which took over Slavenburg's bank several years ago, acquired Nederlandse Credietbank from Chase Manhattan bank earlier this year.

The French-owned bank hopes other banks eventually will join its smart card network.

Perusing the horizon Messrs Oort and Schotsman (ABN board of supervisors and former Postbank director, respectively) are cautious. In their joint paper for a recent banking seminar they wrote: "It appears that in terms of profitability (Dutch banks) are at best, average. For the Dutch banks this contains the warning that they must sail closer to the liquidity compass in the choice of their product assortment."

Laura Raun



Leading Dutch bankers: Mr C.J.Schotsman, left; and Mr Robert Hazelhoff, right, ABN chairman; with Algemene Bank Nederland in Amsterdam, pictured centre.

Tumultuous changes ahead

Continued from page 1

The Finance Ministry will shift most of its supervisory powers to an independent body comparable to the UK's Securities and Investments Board. The new body will have its hands full coping with the Stock Exchange's "rolling Big Bang," which began several years ago.

Two other problems besides corporate defences are causing great difficulties for the Bourse. One is the role of *hoekman* firms, Amsterdam's equivalent of New York specialists, and the other is capital markets liberalisation.

Hoekmen are at the centre of an increasingly bitter battle over their allegedly coddled position at the Stock Exchange. They make markets, but are not obliged to deal in order to maintain orderly prices, thus liquidity can dry up.

They automatically receive commissions on all deals and do not have to compete on price spreads. Perhaps most importantly, *hoekmen* have managed to keep a tight link between trading on the central floor and "upstairs" at the Amsterdam Interprofessional Market (AIM).

That link is more or less essential to the survival of the *hoekmen*, who are single-capacity players who can only make markets and cannot act as brokers. But off-floor trading via AIM must develop if Amsterdam is to compete with London on pricing.

In their own defence, *hoekmen* retort that they were buyers of last resort during the October share crash, keeping trading going in Amsterdam while it ground to a halt in London.

Financial resources have been strengthened through a wave of mergers, a higher capital base as required by the bourse, increased position reserves and a planned "bridging" fund for emergencies.

A typically Dutch compromise seems possible. Banks and brokers eventually may be allowed to buy more than five per cent of a *hoekman* firm in order to inject more capital – a move now opposed by the *hoekmen*.

A switch to dual capacity, as happened in London's Big Bang, also is possible. Then *hoekmen* would be allowed to broker and could be expanded into fully integrated firms.

In the capital markets a similar battle has been waged between a somewhat cossetted group – the *Klaverblad* - and foreign banks. The *Klaverblad* – Algemene Bank Nederland; its merchant bank, Mees & Hope; Amro and its merchant bank, Pierson, Heldring & Pierson – has enjoyed an oligopoly over the primary capital market.

Credit Suisse-First Boston led the charge earlier this year by revolting against the domestic Dutch conventions in the primary market and substituting Euromarket conventions. The fee structure was turned upside down, Euroguilder issues were listed on the Bourse instead of privately placed and one guilder-paper issue was listed in Luxembourg.

Underwriting managers apportioned paper under a quota system known as the "Van Kampen System," in which Bourse turnover determined allocation. Passing along selling commisions was forbidden by the Bourse.

Under a sweeping set of measures announced by the Stock Exchange in May, the primary market was more closely aligned with the Euromarkets. Van Kampen was scrapped, the much-ignored ban on price concessions was dropped and publication of prospectuses was quickened.

Now the Euromarket fee structure is starting to prevail and a grey market in bonds and notes is emerging for the first time.

All things considered, the Dutch face 1992 rather confidently. The Dutch Finance Minister, Mr H. Onno Ruding spoke optimistically at last month's official opening of Amro's new headquarters on the outskirts of Amsterdam, where bankers are moving. The stately Herengracht (gentlemen's canal) is too crowded for the big new dealing rooms which banks want in their headquarters.

"The objective of the White Paper envisages the crumbling of many obstacles," the Finance Minister noted. "For the Netherlands, with Amsterdam as an outstanding financial centre, this offers advantages compared with the current situation.

"The Netherlands has traditionally and consciously carried out an open policy and nakedly faced foreign competition and derived strength. The financial services offered by Dutch institutions, such as banks, insurance companies, investment funds and securities institutions, are competitive and offer a good basis for the period after 1992," he added.

"I believe that we, with these objectives, are on the right path."

هكذا صدر الأصل

Amsterdam has to liberalise further to confirm its competitive position against rival markets

Capital markets in throes of big changes

AMSTERDAM's tradition-bound capital markets are in the midst of a far-reaching transformation.

In a response to growing competition on the domestic and international bond markets, the Amsterdam stock exchange announced a second sweeping liberalisation programme on May 16.

The plan effectively abolishes the so-called "Van Campen" system of underwriting allocation which has been a persistent but increasingly inefficient fixture on the Dutch primary bond market for more than a decade.

Instead, Amsterdam will move closer to Euromarket practices, which will more equitably spread risk among participants and also produce new pressures to sell and compete.

A grey market, in which the price of new issues can be fine-tuned to market demands is another emerging feature of the Amsterdam scene. The likely result of these changes, says one banker, is that "we will have to live with narrower margins all round."

It is widely recognised that as the process of European financial liberalisation gathers pace, Amsterdam will have to make still further changes to cement its competitive position more firmly vis-a-vis such rival markets as London and Luxembourg which have siphoned off substantial Dutch business in the past.

At one point several years ago, as much as 27 per cent of total business in Dutch stocks was being carried out in rival centres such as London (although no official figures exist).

The Guilder bond market has traditionally been dominated by Government issues. Excepting the well developed private placement market, public issues accounted for Fl 20bn of a total Fl 28bn in new listings last year.

Under the old Van Campen system, each member of the bourse had a right to subscribe to a specific portion of these issues, based on their market share. As much as 40 per cent of any given issue might be held aside for these bourse members. But they were not obliged to accept; they could postpone a decision until the last minute, potentially leaving the major banks holding an unpopular issue.

Inevitably, Van Campen theory and Van Campen practice diverged, as participants found ways of by-passing the system to try and compensate for its disadvantages.

The new system will favour the bigger players on the market. They will have to decide whether to join a syndicate immediately, and will have the possibility to subscribe upto 15 per cent of a given issue.

In a comprehensive house-cleaning, listing costs have been lowered (but only somewhat), and launch periods have been shortened by changes in the rules for prospectus publication. A ban on negotiated commissions has also been eliminated.

The new rules mark an end to the market domination of the old *klaverblad* (or cloverleaf) banks which consisted of ABN, Amro, their respective merchant banking subsidiaries Mees & Hope and Piersen, Heldring & Piersen, plus Rabo and NMB.

The klaverblad relied on traditionally close relations with mainly domestic investor base, but now it will be joined by a wider circle of players with a broader range of potential customers.

Many of the current changes are an outgrowth of an initial round of liberalisation in 1986. This opened the way for a number of foreign merchant banks to open or expand their operations in the Netherlands and cleared the path towards a greater diversity in financial instruments.

In all, there are now some 40 foreign banks represented in Amsterdam, of which fully eight are Japanese. They include Credit Suisse First Boston (CSFB), Swiss Bank Corporation Investment Banking (SBCI), Barclays de Zoete Wedd, Morgan Guaranty, Nikko and Yamaichi.

The newcomers were at first slow to make an impact, but eventually it was the two Swiss banks which were widely credited with forcing the pace of change on the capital market.

CSFB, for example, with its broad international placement capacity was able to lead manage a series of issues along Euromarket rather than domestic conventions; in the process the Dutch fee structure was turned on on its head.

Earlier this year, Tyo Van Marle, CSFB's activist chief, took one guilder issue for Austria to Luxembourg rather than listing in Amsterdam. He argued that Amsterdam's listing cost, though recently capped at Fl 60.000, remains too expensive.

"Of course, we prefer to list in Amsterdam to show our goodwill," shrugs Van Marle. "Luxembourg was cheaper by a factor of ten." He also insists he has no intention of competing on fees as do his counterparts in the banks.

Clearly CSFB and other foreign banks with well-developed international placing networks, have been able to turn the greater foreign interest in Guilder issues to their advantage.

Lower Dutch interest rates in relation to West Germany, prompted a number of foreign investors to switch from D-Mark and Swiss franc denominated bonds into Guilder paper.

Despite these changes, many are calling for further regulatory adjustments to cement the market's competitive position internationally. Among these changes would be a further cut in listing costs, the alignment of settlement procedures with (a longer) 7-day international norm, and an elimination of Amsterdam's stamp duty on all securities trades.

On the equities side, Amsterdam's merchant banks are expecting a difficult year in the wake of the October crash. In the space of four years to 1987, turnover on the Amsterdam stock exchange had exploded from Fl 136bn to Fl 336bn.

The booming equities business, combined with slumping demand for traditional bank loans and securitisation of debt had played into the hands of the Dutch merchant banks which, until then, had never attained the same importance in the financial sphere as in countries like the UK.

But turnover on the equities side of the Amsterdam exchange has dropped substantially since October, as elsewhere. Profitability has declined sharply.

Stock trading trading activity shows little signs of recovery (although bond trading remains brisk) and this will mean generally stagnant profits. Those institutions with larger private client bases will be more deeply affected.

Most banks are laying greater emphasis on developing their research services, as they lag far behind their US and UK competitors.

But competition was growing even before the crash. Dutch institutions sharply increased block trading, with its higher risks and lower margins, in response to foreign competition not least from London market makers.

The traditionally conservative Dutch institutional investor has been scared away from the equities market to the same extent as private individuals.

Yet these institutions still hold by far the greater portion of their assets in bonds, cash and real estate. A big proportion of Europe's pension fund assets are concentrated in Holland.

Moreover, the post-October lull has not frightened the foreign houses away. Japanese houses such as Nikko Securities, which recently opened a new office in Amsterdam, still have a long-term interest in establishing a base for European operations in Amsterdam, with an eye towards the European Community's plans for an open internal market by 1992.

For the Dutch banks, their presence is welcomed as a potential stimulus to stock trading.

David A Brown

Mr H.Onno Ruding, the Dutch Finance Minister: a keen supporter of the liberalisation of Dutch capital markets.

NETHERLANDS - KEY INDICATORS

Currency: Guilder	1983	1984	1985	1986	1987
Real GDP growth	1.4	3.2	2.3	2.4	1.5
Inflation (%)	2.8	3.3	2.2	0.2	-0.5
Current account (US$bn)	3.7	5.0	5.2	4.9	3.0
NatWest trade-weighted currency index December 18,1971=100	136.3	136.1	136.6	151.9	161.7
NatWest real trade-weighted currency index December 18, 1971=100	79.2	74.1	73.8	79.5	82.9

RESULTS OF MAJOR DUTCH BANKS

Balance Sheet Total Fl bn	Net Profit Fl m	Per Cent Change	Gross Profit Fl. bn	Per Cent Change	Debt Provisions Fl m	Per cent Change
ABN 159.3	517.0	-3.0	1.26	-6.0	540.0	-6
Rabo 145.5	662.0	+1.0	1.49	+7.0	477.0	
Amro 143.5	479.0	+18.0	1.27	-9.0	600.0	-25
NMB 80.1	221.0	+14.0	0.796	+3.0	500.0	-5

European Options Exchange

Still in black despite doubt

EARLY THIS year, Mr Tjerk Westerterp, chairman of the European Options Exchange in Amsterdam, was gloomy about prospects for the exchange for 1988. Today he is slightly less pessimistic.

"Compared to last year's all-record high of 10.9m contracts, we were anticipating that in 1988 contracts would go down by 50 per cent. But we were wrong.

"Over the first six months of 1988 business went down by 32 per cent only. The European Options Exchange is therefore still in black figures."

The figures indeed still equalise the activities of the EOE in 1985. And so after ten years of unprecedented EOE growth, Mr Westerterp feels he should not complain too much.

Exchanges around the world are struggling with less business since October last year, with the exception of Japan. But Mr Westerterp's conclusion is that the average investor still has a wait-and-see attitude. "They are all watching developments in the United States," he adds.

"It is not only the question of who is going to be the next president in the US, but even more of what his economic programme is going to be."

As regards today's situation, Mr Westerterp observes that US foreign debts are increasing, while the balance of trade still shows a $9.8bn deficit.

He adds that "stock and option markets are reacting nervously to any bit of good or bad news. The markets are fluctuating too much - they are lacking a bottom."

Mr Westerterp wants to see investors move from equities to non-stock options. He also calls himself lucky that last August, the EOE introduced the major market index, MMI, a basket of US blue chips stocks, originally created by the American Stock Exchange.

It is today possible to deal under the same contract at the EOE and some six hours later on the American Stock Exchange in New York, so that positions can be opened in one market and closed in the other.

Before Black Monday, there was an average of 1,000 contracts a day, but this figure fell in November and December to barely a dozen. By January MMI was back at 800 and in May this year it had reached the 1.000 mark again.

It is understandable that Mr Westerterp closely watches happenings at the Amsterdam Stock Exchange, in particular "revolutionary" developments regarding takeovers and mergers and the fierce attacks on the Dutch bastion of protectionism in these matters.

Mr Westerterp adds that "we will have to create European criteria on all European markets, because by 1992 it must be possible to not only list your company on stock markets in Amsterdam, but also in London, Paris, or Luxemburg. These developments are of high importance for the EOE."

Mr Westerterp is philosophical about the failure of some international trading links between bourses. In creating the MMI link, there was an underlying idea of "going global" with options exchanges around the world.

EOE was a pioneer in this respect, but due to the global pessimism of investors the global dream never materialised.

Looking ahead, the EOE is launching a Dutch Stock Index in August, based on the top five Dutch stocks. During the same month, a Dutch Bond Index Option will be started.

Friso Endt

Mr T.E. Westerterp, director general of the European Options Exchange

Protection rules on the Amsterdam Stock Exchange

Takeover defences come under heavy fire

THE MEETINGS were highly secret. Every participant, 300 in all, had to sign a solemn promise not to bring them into the open.

In this way the board of the Amsterdam Stock Exchange recently held three meetings - or hearings - to test the opinions of Dutch business (i.e. companies listed at the Bourse) about plans to adjust the existing notorious Dutch protection rules against domestic and foreign takeover attempts.

The issue is one of the most controversial in the history of the 300-year-old Amsterdam Stock Exchange.

Today, public companies in the Netherlands enjoy some of the strongest defences in Europe against hostile takeovers since legal incorporation grants managements wide-ranging powers and shareholders have very few rights. Nevertheless, potential foreign raiders are watching events in Amsterdam with increasing interest.

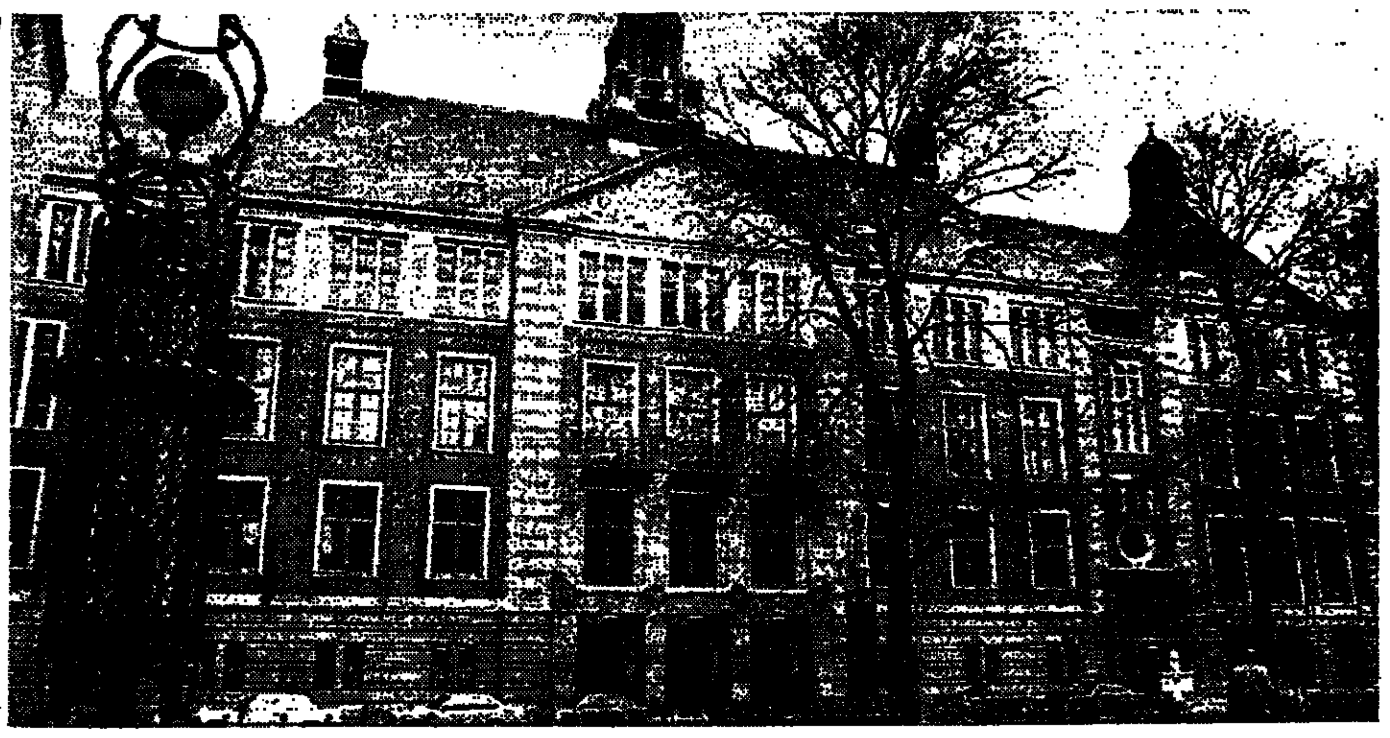
As things stand, only agreed deals stand a chance of success. However, the traditional oligarchy, in which company managers have an inherent right to run their business the way they want without checks and balances by shareholders, seems to be facing its final days. In the last 18 months, shareholders have been demanding more rights – and the protective walls surrounding Dutch companies are slowly crumbling.

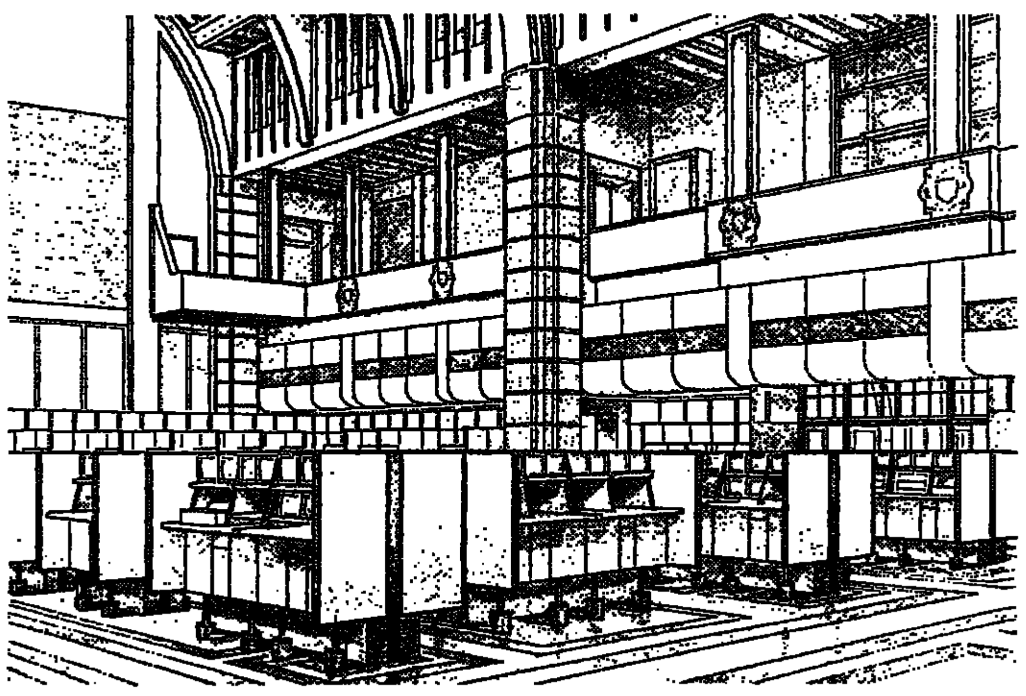
In the early 1970s Dutch companies began fashioning strong anti-takeover defences to fend off British and other foreign companies which were keen to take over Dutch concerns. Foundations friendly to management were created with priority and preferred shares, closely controlled by the managements.

Influence by shareholders was further curbed when companies began to issue share certificates with no voting rights. The shares and their voting rights were administered by so-called "administration offices," whose allegiance leaned towards the company management.

However, the result, according to Baron van Ittersum, the Stock Exchange chairman, is that today the Amsterdam bourse has one of the (if not the) lowest price-to-earnings ratios in Europe.

Baron van Ittersum blew the whistle about a year ago by saying that it was finally time that Netherlands investors were given more say in how companies should be run.





■ The issue over protection rules is the most intense in the history of the 300-year-old Amsterdam Exchange, above.
■ An impression (left) of new technology being installed on the trading floor.

A commission headed by Prof. Willem van der Grinten, former chairman of Oce-van der Grinten, was set up to determine whether anti-takeover defences should be kerbed.

The commission concluded that most defences should remain but this was greeted with dismay by the Stock Exchange which wanted to see Dutch companies move more into line with those in the rest of Europe.

In March the Amsterdam Stock Exchange reacted to the commission's findings by saying: "Managements of Dutch companies should not allow themselves more protection than strictly necessary. Moreover, in principle protective measures should be submitted for prior approval by shareholders.

"The placement of preference shares should serve the promotion of the interests of the company and all parties concerned. Managing directors of listed companies should not be entitled to more than half of the responsibility for the manner in which the voting rights on priority shares are exercised."

Not until June 1987 had the Netherlands ever seen a hostile takeover attempt. Elsevier, a leading Dutch publisher, launched an unfriendly bid for Kluwer, one of its smaller rivals, which ultimately was rescued by white knight Wolters Samsom.

Early this year, shareholders of Nedlloyd of Rotterdam, a Dutch shipping and transport group, revolted under the leadership of dissident shareholder Mr Thorsten Hagen, a Norwegian shipping consultant.

He convinced other shareholders to vote down an issue of cumulative preferred shares that was proposed by management.

Mr Hagen and the Nedlloyd management reached a rapprochement earlier this month over corporate strategy to streamline Nedlloyd's diversified transport activities.

Another case involved Audet, a modest Dutch publishing company in Nijmegen, which faced a takeover bid by VNU, the largest Dutch publishing group. Dissident Audet shareholders finally won a higher offer, which was also given to all other shareholders.

In the wake of the Stock Exchange's proposed limit on anti-takeover defences, listed Dutch companies have rebelled. Baron van Ittersum said earlier this monththat he needed "to evaluate" the secret hearings held with the 300 listed companies."

He admits however that it is "unfortunate" that the outcome of some of these meetings was already widely published in some media.

He says: "The heart of the matter is of course that in the Netherlands clear rules for takeover or merger situations are literally non-existent." He confirms that because of the the low earnings-price ratios "a lot of foreign companies are looking at Dutch companies."

On July 1, he says, the Stock Exchange board will take a final decision on the subject and an advisor will be sent to Onno Ruding, the Dutch Finance Minister, who has the last "political" word in the matter.

Last week Mr Ruding made it clear that he would not take a decision soon as the issue might require a parliamentary debate.

This development is also explained by Mr Tjerk Westerterp, chairman of the Amsterdam option exchange, Baron van Ittersum's "near neighbour." Mr Westerterp, who is a former Cabinet Minister, comments that the issue should be handled at a European level.

"Takeover and merger constructions are heavily protected in the Netherlands and Switzerland, less so in Belgium and West Germany, not at all in countries such as the UK, France, Spain and Italy.

"The French have already made it clear in Brussels that something should be done about it at a European level," he points out.

Friso Endt

Role of the hoekmen firms

The debate intensifies

"HOEKMEN" may be an endangered species. The floor specialists on the Amsterdam Stock Exchange are increasingly having to defend their role as central market-maker at a time when off-floor trading looks like the way of the future.

Echoing the debate in London at the time of its Big Bang, Amsterdam is now engulfed in a wrenching battle over the *hoekman's* role. Heavy losses in last year's equity crash and the bail-out of one firm have fueled the debate.

A key question is whether *hoekman* should continue in their single capacity as market makers or be allowed to expand into brokering and other services – dual capacity. Related to that is how securities are priced and liquidity is guaranteed.

"They do not, like their counterparts in New York and London, have to earn their income on the spread," notes MR Robert Weaver, a sales manager in financial products for Thorn/EMI's Software Sciences subsidiary. "By working to earn money on a spread it would stimulate the market participants to be commercially extroverted and therefore create a much more competitive price, which is ultimately what interests the customer the most."

The sides are clearly drawn. The 35 or so *hoekman* firms are happy with the way things are. The October stock market crash actually proved the need for *hoekmen*, they argue.

Expanding into brokering might be all right if banks and brokerage firms are kept at bay, as they are now. But a set pricing system would require much greater capital resources than most *hoekman* have now.

"We have solved the problems," asserts Mr M.J. Driessen, a spokesman for the *hoekmen*. "We are merging to strengthen weaker members and establishing a new fund to help in times of temporary shortages of capital."

Big dutch banks and commission houses are eager to buy into *hoekman* firms beyond the 5 pc limit now imposed by the stock exchange. Fully integratec firms could then be created with everything from market making to sales to securities research, as happened in London. Perhaps with that in mind James Capel, London's biggest stockbroker, has taken over one firm.

Hoekmen are assigned to a *hoek*, or corner, where they match up orders from banks and commission houses in a number of assigned securities. As single-capacity players they can only make markets based on orders received and cannot act as brokers in dealing with investors.

Commissions on every trade rather than price spreads provide income. Banks and brokers are forbidden from owning *hoekmen* to avoid possible price manipulation.

Hoekmen firms have exploited their strong position on the bourse board of directors by playing into the vision of its chairman, Baron Bouwdewijn van Ittersum. He is committed to a centralised trading floor where orders are funneled and prices are set.

Even players in the Amsterdam Interprofessional Market (AIM), a bloc-trading market, must still report prices back to the central floor although deals bypass the *hoekmen*. This prompt reporting allows the hoekmen to shade their quotes when aim players seek to offset their positions on the central floor.

In years past, *hoekmen* did a good business – collecting commissions, trading on their own account, free of the obligation to deal in order to keep an orderly market. Capital requirements set by the bourse were rather modest and profits were not always plowed back into the firm.

"Some people left their big cars parked on the edge of Amsterdam and came in with the tram," admits Mr Cees Vrank, a partner in the firm of Wolbers, the fifth largest *hoekman* with 13 traders.

Wolbers is the result of a merger earlier this month between Wolbers/SAS, itself the product of a merger, and Ijdema. The newly merged firm makes markets in stocks such as Unilever, Hoogovens and Nedlloyd as well as investment funds and options.

Mr vrank argues that the october crash proved how indispensible *hoekmen* are. During the collapse in share prices it was the

Continued on Page 5

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Dutch insurance companies are faced with sweeping changes and . . .

Moral and commercial conundrums

DUTCH INSURANCE companies are facing sweeping changes. The three main problems are health insurance reform (as costs are rising beyond expectations), risk insurance against the AIDS virus, and – inevitably – the impact of the single European market in 1992 and what competition such a market will bring.

Health care is comparable to that of Britain, with costs in the Netherlands rising so greatly that government and the insurance industry are facing a near impossible burden. It is a political dilemma which will be fought out in Parliament this autumn.

The insurance companies have been asking the government about AIDS-related issues: for example, can insurance companies ask prospective clients whether they are possibly contaminated by the AIDS virus, or if they have been diagnosed as HIV-positive.

The Association of Health Insurance Companies has advised the industry to ask these difficult questions. A spokesman from one of the companies, De Zilveren Kruis, (The Silver Cross) said recently that people who are HIV-positive would be offered the same services as applicants suffering from heart-disease, diabetes, or cancer, for example.

"We never accept clients in cases where onemight expect that the premiumthey pay will not compensate f the costs of their treatment," id the spokesman. "Such clientmay take out a special rate f which they have to pay Fl 18per month." A normal insurancrate, by comparison, is betwe Fl 100 and Fl 180.

Under a Dutch ct, enforced in April 1986, the lsurance companies are no loner allowed to refuse so called risk-prone" clients. Consequely, the insurance industry nw only accepts client if they arerepared to pay the higher premm.

Last April, tl Dutch Medical Association ar the insurance industry reach agreement that anyone who plies for a life insurance sum above Fl 200,000 are can be retired to undergo an AIDS test.

Dr Frits Kdhals Altes, the Dutch Minist of Justice, confirmed in rliament that, legally, the isurance industry has a right · asked for these tests. Only at February the European Comunity Executive Committee in Brussels decided to abandon anAIDS test-requirement for ople being interviewed for ob.

Mr Menn Fruitema is the a chairman ' the Netherlands Associationf Life Insurers and also chairman of general management at Nationale Nederlanden, the biggest insurance company in the Netherlands. In an interview he said:"The first time we were really confronted with AIDS was a little over two years ago. The problem received attention, followed by a great deal of unrest – and now we are in the phase of extensive consultation.

COST SAVINGS

COUNTRY	Ecu/bn
Belgium	0.7
Germany	4.6
Spain	3.2
France	3.7
Italy	4.0
Luxembourg	0.1
Netherlands	0.3
United Kingdom	5.1
TOTAL	21.7

☐ **This table indicates how European integration will save money in credit and insurance markets.**

"The purpose of our association is to try to avoid an escalation of an AIDS witch-hunt. The life companies are in close contact with the public via their field staffs and agents and they want to attune the AIDS policy to social developments."

Without an AIDS test requirement, Mr Fruitema fears that the risks faced by the insurance companies would be too high.

"The danger lies in a deliberate attack on our company. We have reason to suspect that certain homosexual organisations are advising their members to purchase a life insurance policy when they discovered they have been infected with AIDS.

"We have to protect ourselves against this development bu using a careful underwriting policy. We have to safeguard the interests of our present and future policy-holders in order to honour their legitimate claims."

Mr Fruitema emphasises that it is not the task of life insurers to scrutinise people's morals, but he says,"in order to accurately assess an application for a life policy we have to examine medical aspects – and it transpires that AIDS is prevalent among certain groups of people."

Asking people for information about their sexual preference violates their privacy and Mr Fruitema explains that probing questions also have a commercial disadvantage – "you will probably be able to eliminate dubious risks, but you will also write less business since you offend people by asking such questions."

In keeping a prudent approach, the Dutch Association of Life Insurers advises its members to admit a standard clause into their application forms whereby AIDS is added to the list of diseases about which a prospective policy-holder is usually asked. Mr Fruitema says:"If we really want to protect insurers against AIDS risks, we will have to ask for a specific blood test. An even more extreme measure would be to exclude coverage when it is proved that a death was caused by AIDS."

The blood test in question is the so-called Elisa test, which demonstrates whether a person's body has developed antibodies against the HIV virus, indicating contact with the disease.

Mr Hendrik de Raadt is chairman of the Dutch Association of Company Medical Officers and chief medical officer of Nationale Nederlanden Life. He says the test is relatively cheap (about Fl 25) and can be performed in practically any clinic.

When asked what they would do if they found someone with a HIV-positive test, he replied: "We would do what we always do. We would write the applicant a letter to the effect that 'we have found a small anomaly in your blood test and we advise you to contact your family doctor who has already been informed by us.'

"We would meanwhile put the application in the pending file, inform the applicant's family doctor and ask him to inform us of the outcome if he and his client decide on a further examination."

Mr De Raadt also touched on the denial of claims when a cause of death turns out to be AIDS – the measure which Mr Menny Fruitema describes as the most extreme step insurers could take to protect themselves.

"This would involve drastic legislative changes," says Mr de Raadt. "For reasons of privacy, insurers in the Netherlands do not receive a copy of a death certificate, as do their colleagues in other European countries. So we are simply informed that a person has died – not how he has died".

With an eye towards a wider market in 1992, the Dutch non-life insurers market always have been freely accessible to foreign insurers. No matter were an insurance company is established in the world, there are no restrictions for it to cover risks in the Netherlands.

However, in order to transact life insurance it was necessary, until recently, to have an established base in Holland. And presently there are about 200 foreign insurance companies established in the Netherlands.

Since July last year, there has been freedom worldwide to provide life insurance in Holland as well. Therefore the situation relating to "freedom of service" is fundamentally different from other EC countries. Companies established in other EC nations are free to insure persons or risks in the Netherlands as long as they operate from their establishment and not in the Netherlands.

Dutch insurance supervision is the most liberal in the European Community: no previous approval of rates and conditions required, no minimum technical bases are described, no investment regulations, and no specifications for the assets and liabilities-evaluation.

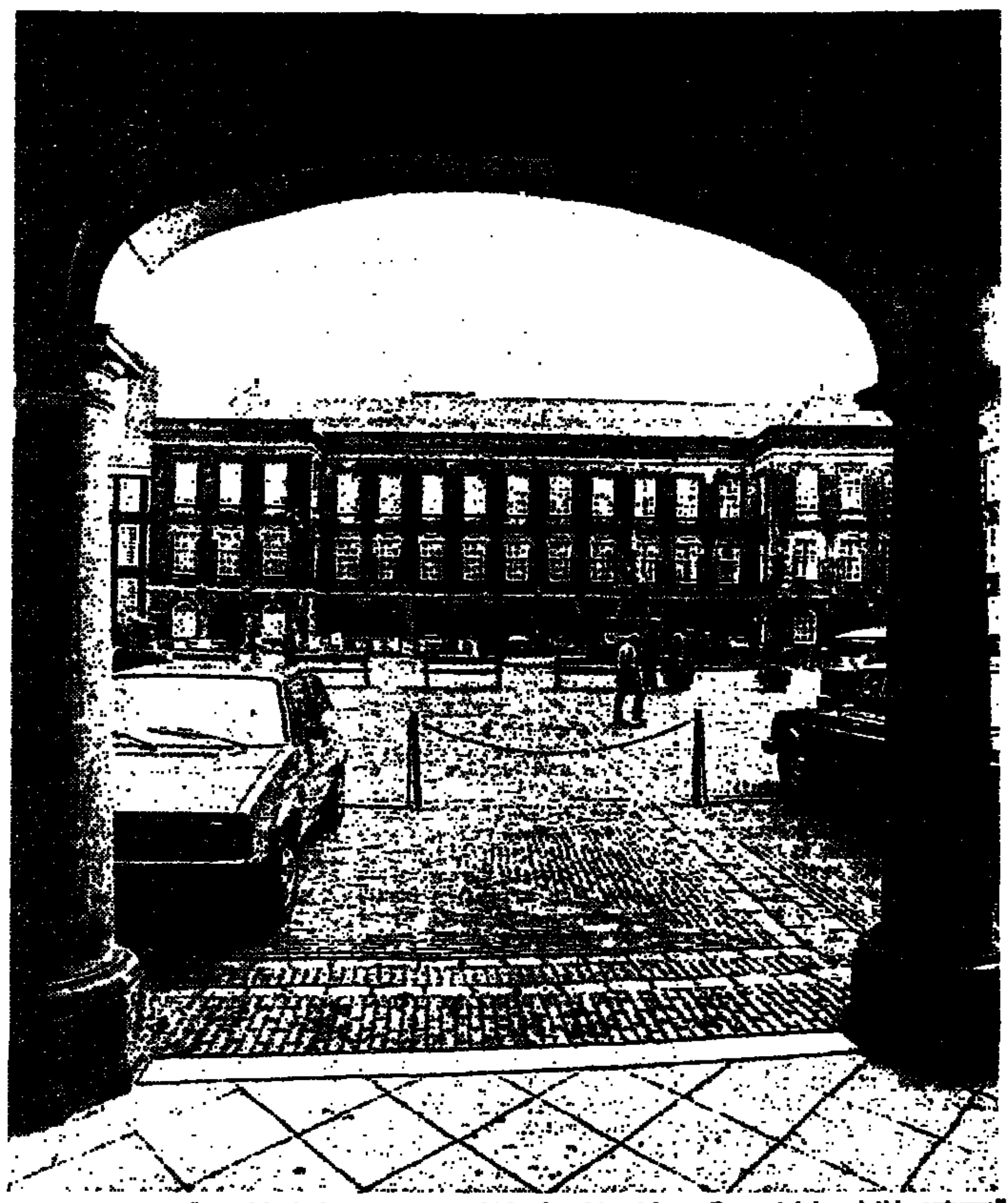
With such a liberal situation it is clear that Dutch insurers are reacting differently from those in more restrictive countries to the prospects for 1992. Apart from the 800 non-life and 80 life companies,established in the Netherlands, there are also different distribution systems which compete with each other.

Some people in the insurance industry are predicting that a huge integrated European market of 320m Europeans could provide an insurance premium volume of $60bn. As the Dutch market is freely accessible, Dutch insurers see the future 1992 market as a two-way street which will be opened up to their advantage.

What will 1992 then bring as regards changes in the Dutch market?

"Two strategic options are conceivable," says an industry analyst. "One option is that you become a meagre company - or else you become a specialist in a market segment. If you succeed, you are the winner.

Friso Endt



Health insurance: "a political dilemma which will be fought out in parliament (above) this autumn"

Controversy over the hoekmen

Continued from page 4

hoekmen who were buyers of last resort, even when not legally bound to do so, he avers. Trading in Amsterdam never ground to a halt as it did in London.

"Some banks weren't even picking up the telephone," he snorts. "It was clear during the crash that we were a professional counter-party." Financial losses resulted from acting professionally, he argues.

Capital requirements recently were raised sharply for *hoekmen*, as for all stock exchange members. Now firms must have a minimum base of Fl. 1m, four times the previous amount.

Risk-weighted liquidity requirements for the securities which they deal also were lifted. *Hoekmen* must now hold 20-30 per cent of a given position in liquid reserves, up from 10-15 per cent before.

A venture capital fund is being *created to serve as a buffer in* case of emergencies like the crash. A stock exchange members can participate but the fund won't open the way for outside shareholdings in *hoekmen*, Mr Driessen insists.

"It is *not* a first step in that direction," he warns. "We don't want that. We want to remain independent in order to keep the price-setting mechanism pure."

On a few points nearly everyone agrees. *Hoekmen* must press ahead with efforts to strengthen their financial resources and professional expertise if they are to survive at all.

The crash of 1987 took its toll, resulting in losses of "tens of millions of guilders" and the rescue of Mellegers and Van den Elsaker by Amsterdam options traders. Mellegers was the result of a four-way merger last year and proved that bigger does not necessarily mean healthier.

Consolidation nevertheless has shrunk the ranks to about 35 *firms from more than 50 a few* years ago. Only 15 or 20 eventually will be left, according to common consensus.

Falling commissions, rising costs and the need for better talent are hitting most firms. Over the past five years commissions have plunged by about half. The stock exchange's current move into "paperless trading" is costing members heavily in new computer equipment.

Greater capital is essential if liquidity is to be guaranteed. *Hoekmen* presumably would be better able to stand behind their quotes – which they don't always do now – if they had plenty of money behind them.

Mr N.E.Ijdema, senior partner in his firm of the same name which recently merged with Wolbers/SAS, notes that expertise is equally important – "Hopefully you increase your know-how," he says."You want to acquire traders with a vision."

But other points remain contentious. *One is settlement of* bourse transactions, which can take anywhere from two to 10 days. Baron van Ittersum has promised to impose the international standard of five business days but nothing has happened yet.

The variability allows *hoekmen*to juggle settlement in order to finance positions with new ones rather than with funds. But banks and brokers often get squeezed between the *hoekmen* and foreign clients, who work on the five-day rule. If the *hoekman* pays later the bank has to carry the financing charge.

More divisive is the *hoekman's* access to AIM prices. Baron van Ittersum has vaguely relaxed the reporting requirement, but it is unclear how independent off-floor trading can be. Some market participants believe it is only a matter of time before genuine off-floor trading is allowed and Amsterdam has a real Big Bang.

Laura Raun

Pensions reform

Still high on the agenda

AFTER 20 years of working for pension reform, Mr Erwin Nypels, Member of Parliament for the Democrats '66 party, is finally getting some reward, though no retirement: he is seeing industry move to make private pension benefits fairer to those who change jobs.

The system until now has been "legalised theft," Mr Nypels claims, surrounded by two decades of research on pensions. "The 'lifers' are rewarded and the 'movers' are penalised."

Mr Nypels is founder of the Association for Combatting Pension Severance. The 'severance' is of a job-changer's pension fund from the indexation enjoyed by a job-keeper. Deprived of inflation or wage indexation, the pension funds are called "sleepers" and cannot be taken to the next job, either.

A worker who changes jobs at the age of 35 can lose a quarter of the benefits that would otherwise have been enjoyed; someone who changes jobs at 45 can lose half.

"Pension severance further serves as a damper on labour mobility and means a serious erosion of the freedom to choose a job," Mr Nypels explains. "For older employees this leads to a kind of pension slavery. From the viewpoint of labour market policy it is urgent that this damper on mobility is removed. This is also in the interest of cross-fertilisation of experience in industry."

In the Netherlands, as in the UK and US, pension reform is high on the agenda. Pension severance affects a quarter to a half of all workers, according to Mr Nypels. The population is ageing rapidly and by the year 2000 around 23 per cent of the population will be retired.

Dutch pension funds are believed to be the biggest in the world, with assets of about Fl330bn at the end of 1987, according to the Netherlands' Central Bureau of Statistics. Banks would like to tap into this wealth of savings which, until now, have been the exclusive preserve of pension funds and insurance companies. Both the investments and benefits are coming increasingly under attack.

A state pension is available to everyone upon reaching the age of 65. It is equal to between a half and a full minimum wage, depending on the age and employment of family members. Since April 1 pension benefits have been trimmed for a working spouse – a further irritant to men who were already angry about having their benefits cut several years ago when women got equal ones.

Because state benefits are rather modest most companies and industries offer private pension schemes as well. About 60 per cent of all employees are covered by private plans and this is expected to rise to 80 per cent in coming years.

Pension severance serves as a damper on labour mobility and erodes freedom of job choice

Mr Nypels, who first introduced a bill on the subject to parliament in 1980, wants to see the sleeping funds linked to inflation, wage rises, age or company tenure. Pension portability, in which an employee can take his fund with him, would also be allowed under the bill. Anything that would equalise the benefits for lifers and movers has Mr Nypels' approval.

Earlier this month an industry group was formed to adjust pension benefits for either age or company tenure in the case of job change. The group represents companies which cover about 400,000 employees in the metal industry and architectural profession, among others.

Another 300,000 employees work for companies which had already agreed to adjust funds for both age and tenure. But, in total, these 700,000 employees account for less than one-fifth of all workers and it is not clear how quickly other employers will move – if they move at all.

By the end of this year employers are supposed to report back to Parliament on efforts to adjust pension schemes. "By the first half of 1989 I hope to put things in order," Mr Nypels says. "The Liberal Party says that if industry won't voluntarily rectify the situation then they will support my bill."

Pension portability has been forbidden for two reasons. One is the government's desire to keep people from spending their retirement money on things like houses; the other is the enormous variety of schemes, as many as 30,000 with different regulations spread among 1,180 funds. Employers have so far forestalled efforts to force them to adjust sleeper funds, arguing it would be too costly. But Mr Nypels retorts that indexing could easily be paid out of funds' ample reserves.

Critics argue that Dutch pension schemes discriminate against people building careers, unmarried people, women and low-income workers. Traditionally, private schemes were designed for the bread-winning married man who remained with one employer and whose wife stayed at home. Working women and single people usually face more stringent criteria for participation and receive lower benefits.

Low income employees suffer at the expense of more highly paid ones because "last salary" schemes account for 60 per cent of all plans. Under these, the person retiring gets 70 per cent of his last salary regardless of whether the accumulated premiums and interest are equal to that. Also unfair, say critics, is that employers frequently offer a pension "bonus" to higher-salaried workers to entice them to change jobs. This bonus is paid out of fund reserves.

"Available premium" schemes, which account for another 25-30 per cent of all plans, often yield better benefits and are fairer. Benefits simply amount to the built-up premiums and interest, which often come to more than 70 per cent of the last salary. But the exact benefit level is unknown until the last moment and Dutch workers prefer the certainty of the 70 per cent.

Rabobank, the big Dutch co-operative bank, launched a campaign earlier this month for greater choice in retirement-fund products. Mr HJ Klarenbeek, vice chairman of Rabo, urged the government to allow banks to offer a kind of individual retirement account and to raise overall tax deductions for such savings to 20-25 per cent of income.

"A greater supply of old-age reserves and the involvement of banks in that supply are conditions that justify the growing demand for more choices in ... these products," Mr Klarenbeek said. "Both would lead to an improvement in the allocation of private savings which could be plowed back into the productive sectors of our economy. From the viewpoint of equitable competitive conditions in the context of 'Europe 1992' something is necessary."

Pension funds also are criticised for their investment policies. They are too big and lazy and if funds were invested more cleverly then excessively high premiums – some say among the steepest in the world – could be pared and benefits could be raised, the argument goes.

*It is true that investment policies are quite conservative by international standards. The rate of return used to calculate benefits is a low 4 per cent and anything above that is tossed into the reserve pot and is used to top up last salaries, among other things. A higher rate of return would allow more generous benefits or lower premiums, or both.

Dutch pension funds invest much more heavily in government bonds and more lightly in equity than their UK counterparts. As much as 90 per cent was tucked into government bonds (Dutch and foreign) and private-placement loans, and as little as 5 per cent in shares in the past, although this is changing, especially among sophisticated funds such as Royal Dutch/Shell.

World Markets Company, an Edinburgh-based bureau now owned by Bankers Trust of New York, surveyed 23 Dutch funds last year and found 64 per cent of portfolios in bonds, 17 per cent in equity, 16 per cent in real estate, and 3 per cent in mortgages.

Over the past four years Dutch funds have earned about 9 per cent in guilder terms on their assets – significantly less than the 15 per cent in sterling terms chalked up by UK funds, according to World Markets Company.

The Dutch argue that last year's equity crash proves the need for a prudent policy. But even in 1987 UK funds performed better, earning 3.4 per cent, or twice as much as the 1.6 per cent for Dutch ones.

Despite last year's crash, Dutch pension fund managers probably will continue to adopt a more flexible attitude, with one obvious exception. Portfolio insurance – using options and futures to hedge a portfolio – got a very black name in the October crash and it is doubtful whether this once-popular US strategy will find its way into the Netherlands.

Laura Raun

Shoppers, young and old, in the Lijnbaan area of Rotterdam: pensions severance problems probably affect a quarter of all Dutch employees. The population is ageing rapidly and by the year 2000 around 23 per cent of the people will be retired.

Venture capital

Form of financing that suits

IN TERMS of venture capital funds, the Dutch are the third largest in the world, with Fl 2.5bn (Ecu 1.1bn), not far behind the United States with $19.6bn and the United Kingdom with Ecu 2.7bn.

Dutch funds alone "are covering more venture capital areas than all other European Community countries together, apart from the UK," comments Professor Arie van der Zwan, former president of Holland's National Investment Bank; today he is a board member of Vendex International, the department store chain.

Venture capital is a form of financing that suits the Dutch well. Three centuries ago in the days of the United East Indies Company, Dutch entrepeneurs were already launching into the sector. If, for example, one of the company's ships returned with pepper from the Dutch East Indies, the investors made a profit - but if the vessel did not return, then investors lost their money.

The venture capital market in the Netherlands today is somewhat less adventurous – ten years ago a Dutch businessman, Bert Twaalfhoven, went to the European Management Conference in Switzerland and told Dutch bankers that he considered them anything but risk-takers.

But by 1981 the climate was changing as the Dutch Government, faced with a wave of unemployment, started a venture capital scheme in which the authorities underwrote losses of up to 50 per cent in new projects.

Dutch bankers were anything but risk-takers

In the years leading up to 1981, the National Investment Bank had helped to establish five provincially-managed venture capital companies. Their presence made relatively little change to the overall situation until the government's guarantee scheme was launched. A series of venture capital companies were then established, some with English-sounding names, such as Bever Investments, Euroventures, Holland Venture, Venture Capital Investors and so on.

One of these pioneers was Mr Allerd Blauwboer, who began his venture capital company with less than Fl 10,000, plus a small office with an old typewriter. "I looked for opportunities and found them," he recalls. "The ratio in those early days was that, generally, one in ten of investment projects was a good success, while five gave reasonable return, three gave an average return – and one was a near disaster!"

Today, Mr Blauwboer's Nesbic venture capital company thrives on a capital of Fl 50m. His story is not exceptional: not only have banks such as ABN and Amro entered the market, but in the Government has entered the venture capital sector by founding the Company for Industrial Projects (M.I.P.).

Various chambers of commerce are also operating in the field. For example, the chamber in Zutphen set up a scheme three years ago to attract 300 small private individual investors to each participate with Fl 500 in venture capital.

The response was so swift and encouraging that chambers in others have followed suit - in, for example, Dordrecht, Haarlem, Rotterdam, Delft, Lelystad and Bergen op Zoom.

The Government's organisation for industrial projects, M.I.P. has so far invested close to Fl 300m in different schemes. According to the latest "Venture Capital Guide Book," published by Peat Marwick, the accountancy firm, M.I.P. and the Netherlands Participation Company are the two front-runners in Holland's venture capital sector; number three is the NMB Bank, which focuses mainly and by tradition on small and medium-sized companies.

Other heavy-weights in the sector include the Noro group (also investing strongly in the United States); an ABN Bank venture capital fund; Nesbic; the Oranje Nassau Group; Gilde Ventures; Holland Venture; International Venture; and Kempen and Co.

As the market boomed, the Stock Exchange Board founded the so-called parallel market, next to the official exchange.

Venture capitalists apparently became the victims of their own enthusiasm, however. The euphoria for the parallel market grew so much that "sometimes companies were listed, but there really are doubts that some were ripe for the bourse," comments Mr J. Janszoon, managing director of the investment company, "Nederland," which advises a number of venture capital firms.

"People are not asking whether a venture capital company is ripe for the parallel market, but whether the parallel market is ripe for that company."

Friso Endt

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NETHERLANDS BANKING 7

Half the population and 80 per cent of all Dutch companies have an account with the state-owned bank

The Postbank gets ready for privatisation

THE COUNTDOWN has started for privatisation of the Postbank. The Dutch state-owned bank is to be publicly floated within two years and pressure is on to get ready.

Perhaps most urgent is the need to improve its weak earnings record, where net profits could fall again in 1988 for the second straight year. A heavy reliance on interest income, costly payments clearing and growing fraud are to blame if that happens.

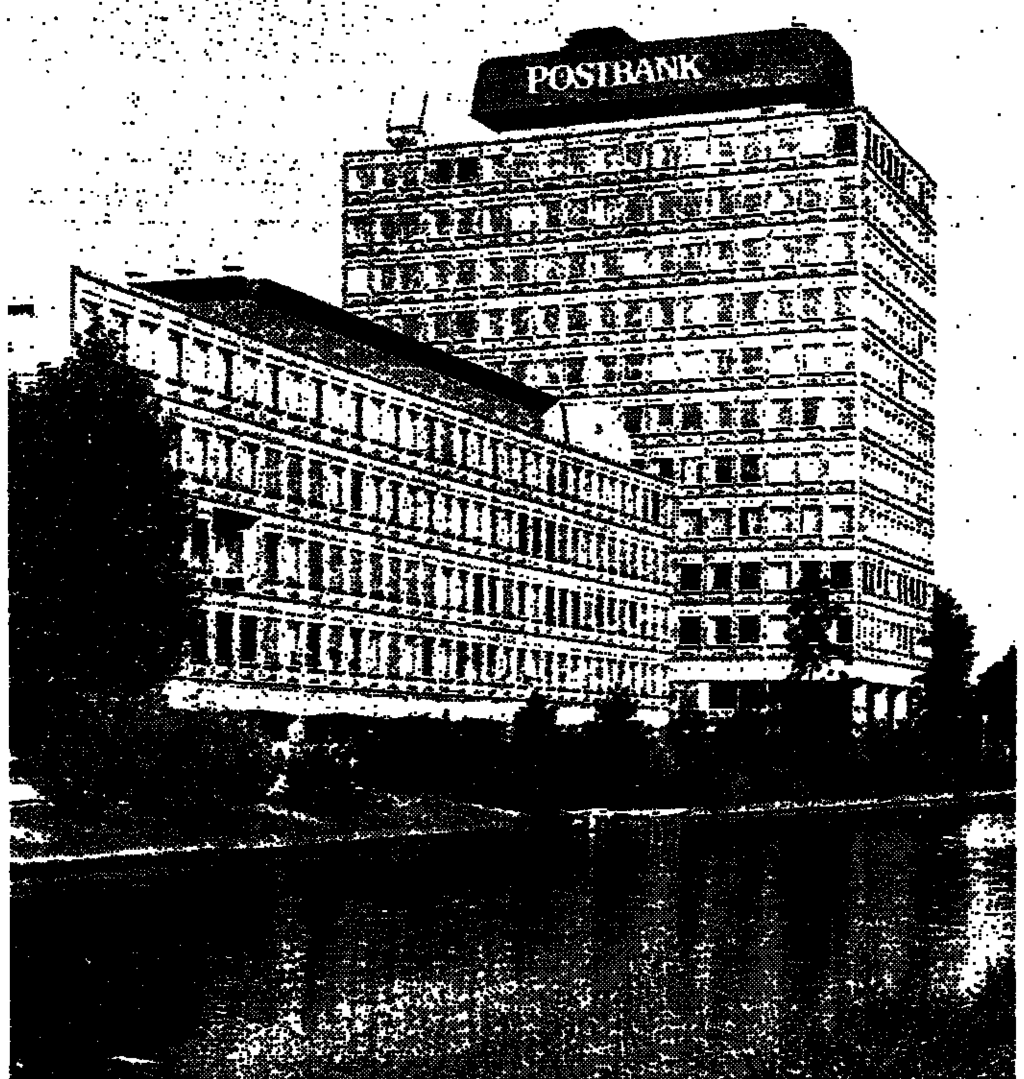
The Postbank also must prepare to offer sophisticated new services such as securities brokerage and merchant banking, which will be allowed at the time of the flotation. A stable of traders, arbitrageurs, advisers and analysts must be built up.

Mr G.J. Van der Lugt, president of the Postbank, seems confident he can transform a government-owned bank into a private one that can compete with the best of them. But he is wary of publicity and prefers not to give interviews.

In 1986 the Postbank, which has its headquarters in Amsterdam, was created as the merger of the Postal Giro System and the National Savings Bank and is now the fifth-largest Dutch bank with assets of Fl 55.2bn. It was spun off as a private company whose shares are entirely held by the state but which eventually are to be sold to the public.

The initial public flotation of a minority stake is to take place by *spring 1990 at the latest and* could be sooner if the market is ripe, according to Mr Onno Ruding, the Finance Minister. The rest of the shares can be floated later and the Postbank is free to collaborate with other financial institutions, he added this month.

Because it grew up as a kind of public utility for transfering funds, the Postbank has a massive presence in the Dutch market. Half of the population and 80 per cent of all companies have an account with it, providing an enormous daily float of about fl 2.9bn.



The Postbank, which has its headquarters in Amsterdam, was created as the merger of the Postal Giro System and the National Savings Bank and is now the fifth-largest Dutch bank with assets of Fl 55.2bn.

A crucial question is whether investors will want to buy into a bank that is still subject to political whims and forced to serve as a public utility. Significant new services will start only after the initial share offering, adding to the gamble.

Net profit plunged 18 per cent to fl 249m in 1987. The bank refuses to disclose comparative figures for 1985.

For this year the Postbank only predicts a rise in gross profits, thanks to volume growth in business that should offset narrower interest-rate margins and higher personnel costs and compensation to the Dutch PTT for post office space.

The Postbank's trump card is its highly-developed Giro clearing system, a payments transfer circuit in which funds are exchanged among financial institutions at clients' requests. The Giro system was at the heart of the postal Giro system and National Savings Bank, which could offer little more than simple transfers at crowded post offices.

When the Postbank was spun off it had to promise to go on providing basic services free of charge. Each year payments clearing loses about fl 70m, according to the National Council for Payments Clearing.

Mr van der Lugt took the unprecedented step last year of scrapping a 0.75 per cent interest rate paid on demand deposits in an effort to stop the red ink. It was the first time a Dutch bank had risked the wrath of customers, and signalled how aggressive the Postbank might be.

The Postbank's forerunners invested heavily in automation in an attempt to make clearing efficient. Today the bank claims to handle more than 40 per cent of all payments transfers, leading other banks but down from a couple of years ago.

Mr van der Lugt's dream is to continue automating the giro system until it is a well-oiled network that can profitably clear payments. Linked to that network will be a variety of services for private and corporate clients.

Ultimately Mr van der Lugt hopes to handle more than 20 per cent of its transactions through electronic funds transfers (EFT) compared with only 3 per cent at the moment.

Over the next four years the Postbank will spend about fl 1.35 bn on automation, mostly EFT. *Four major projects are point-of-*sales (POS) terminals and their debit cards, automatic teller machines (ATM's), a credit card and Girotel, a home-banking scheme using personal computers.

About 1.2m Postbank cards with a personal identification number (PIN) code have been issued. Without the pin code access to the new gadgets is impossible. The remaining two-thirds of its customers are supposed to get their pin codes by 1990.

The Postbank has taken part in an experiment, along with other banks and oil companies, in POS terminals - which allows direct debiting of purchases. The experiment was intended to choose among the two competing systems used by the Postbank and other banks so a national standard could be established.

But the Postbank raced ahead, agreeing with Shell that it would put terminals in 320 petrol stations and with Albert Heijn that it would place terminals in its grocery stores. By the end of last year Postbank customers had access to 80 per cent of all POS terminals in the country.

"The Postbank jumped the gun in saying it would go with Shell in setting up its own terminals and that forced the other banks to take action," explains a computer specialist involved in establishing a national standard. "But Nederlandsche Bank (Dutch cen*tral bank) said there must be one* central system."

Agreement has now been reached on a standard format using on-line terminals and a magnetic-stripe card with a central switching centre for all EFT. The system is to be operational by early next year, when a total of about 1000 POS terminals are supposed to be in place.

Somewhat slower has been the Postbank's campaign to install ATMs, especially in comparison with savings banks. The current 40 or so are to be doubled by the end of this year and expanded to several hundred in coming years.

A bank credit card linked to Eurocard and Mastercard was announced recently, another sign of agressive marketing. Dutch banks have done their utmost to keep credit cards out of the Netherlands, arguing that plastic money is too dear and the Dutch do not want it anyway.

But the Postbank has its own reasons for offering the attractively-priced credit card, half of what Visa costs. It has limited the cheques given to Dutch tourists travelling abroad because of growing fraud and the new credit card is a safer substitute.

Girotel was launched in 1986 and allows customers to bank at home or office, using a personal computer. Customers can pay bills, transfer funds and buy household goods.

Four-fifths of the 2,000 users are private individuals and the *rest are companies. Girotel is* designed for up to 10,000 users and is expected to appeal to an increasingly ageing, homebound population.

Aside from cutting costs and improving service, automation also is aimed at combatting fraud. Mr van der Lugt has admitted that "millions of guilders a month" are lost on stolen bank cheques and forged cards.

Organised rings of thieves have been caught fishing cheques from private mail boxes with pieces of wire. Pickpockets have no problem snaring a Postbank card.

Electronic authorisation terminals are being installed at each of the 2,700 post office counters, where a customer's pin code is punched in before a transaction is done. Cheques no longer are mailed but must be collected personally.

Commercial services to companies are being expanded as well. Cash-management services are being developed to take advantage of the huge daily float. Leasing arrangements and credit guarantees also are being developed.

But underwriting issues and advising on mergers and acquisitions are forbidden until the public flotation. Securities brokering will also be permitted then.

The Finance Minister has ruled that insurance brokering will be out of bounds even though other banks do it. Mr van der Lugt has made no bones about his desire to broker insurance and a battle seems likely.

A longer-term problem is the use of post offices after 1996, when the current contract with the PTT expires. Compensation to the PTT accounts for a hefty one-third of the postbank's operating expenses and it might be cheaper to build its own network.

Mr van der Lugt clearly has his hands full for the next couple of years but he seems to relish the challenge as a way of restoring some polish to his name. Before taking over the Postbank reins he spent 22 years with Nederlandse Credietbank (NCB), which recently was acquired by Credit Lyonnais.

Mr van der Lugt is considered to be responsible for NCB's questionable attempt at home banking called Direktbank and its overall profit plunge in 1982. Profits hardly climbed before Mr van der Lugt left and the bank was rescued by Chase Manhattan in 1984.

Laura Raun


☐ Customers at the Amro Bank (Amsterdam-Rotterdam Bank), one of the country's top three banks, with net profits in 1987 of Fl 143.9bn, up 16 per cent on the previous year. An increasing number of Netherlands banks are investing heavily in automated systems and customer services.

International expansion by Rabobank

Earnings have risen steadily

OPENING A bank branch in Dallas right now might seem like shooting oneself in the foot. But Rabobank, the big Dutch co-operative bank, has done just that.

The new branch in the economically battered state of Texas demonstrates Rabobank's commitment to the agricultural industry and expansion abroad. Despite the US farm crisis of recent years, Rabo has probably been one of the few banks to increase lending to the industry, although selectively to businesses and not to individuals.

"It's more than loyalty," explains Mr H.J.Klarenbeek, Rabobank's vice president in charge of foreign activities. "People will always need food – and in terms of the infrastructure, the US is no doubt doing better."

Rabobank, which is based in Utrecht, is currently expanding abroad faster than at any time since its creation in 1972 as the result of a merger. Branches are being opened in Dallas, San Francisco, Sao Paulo and in Switzerland.

Talks are also being held within UNICO, the group of seven European co-operative banks, about closer collaboration. Some kind of joint effort short of a merger seems likely.

Rabo is a parable of the Netherlands. It is a merger of a northern, Protestant co-operative bank – Raiffeisenbank – and a southern, Catholic one – Boerenleenbank. Hence the name: Ra(iffeisenbank) and Bo(erenleenbank).

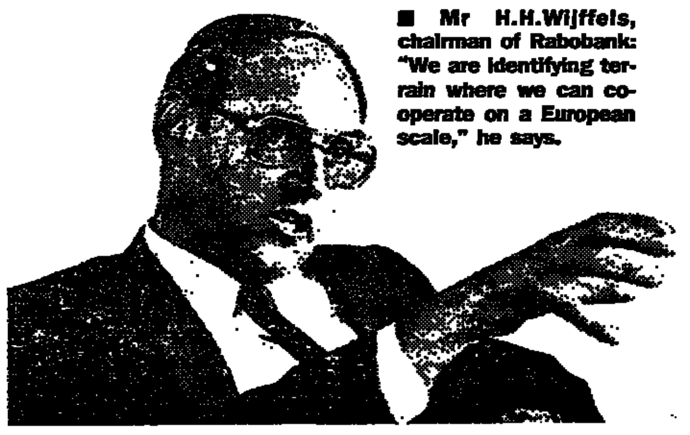
With assets of Fl 145.5 bn it ranks as the second largest dutch bank behind Algemene Bank Nederland. Rabo has 922 member-banks with a total of 805,000 members – farmers and companies – who are individually responsible for losses up to Fl 3,000. That has never been necessary and earnings have always been added to reserves, of which Fl 8.4 bn are disclosed.

Earnings have risen steadily over the years, if occasionally modestly. Net profits edged up only 1 pc to Fl 692m in 1987 amid tight interest-rate margins and tepid growth in lending. This year looks similar.

Rabo acts as a kind of "central bank" and treasury for its member banks and their 2,300 branches. It also carries out its own business, including agricultural lending, mortgages, consumer finance, factoring and leasing. Rabo claims one-quarter of all residential mortgages and about 40 pc of all Dutch savings *accounts*.

Rabo has a virtual monopoly on agricultural lending in the Netherlands – 90 pc of the market – and its overseas expansion has been designed to better serving those home clients.

The push abroad also is intended to bring that expertise – including its top credit rating – to bear in foreign markets. New york, London and Singapore branches have been opened in recent years.



Mr Henry Klarenbeek (top left), Rabobank' vice president in charge of foreign activities.

Mr H.H.Wijffels, chairman of Rabobank: "We are identifying terrain where we can co-operate on a European scale," he says.

In the Netherlands, Rabo lends directly to farmers as well as toagribusiness, which accounts for more than 5 per cent of gross national product. A Biotech Venture Fund, for example, recently provided venture capital for a company that genetically engineers seeds.

But as a growth industry Dutch agriculture has been slowed by European community policies and so Rabo has sought greener pastures. Lending to small business at home and abroad has expanded rapidly.

In 1985 Rabo sailed into uncharted waters with the acquisition of the Dutch Ship-Mortgage Bank, an old, ailing Rotterdam institution. The ship-mortgage bank is now in the black but the cheap dollar is hurting.

Today farm loans are the smallest part of the bank's portfolio. They account for 27.5 per cent compared with 32.5 per cent for small business and 40 per cent for mortgages.

The current round of overseas expansion actually began in 1985 when Rabo signed an agreement in principle with the Agricultural Bank of China to set up a joint venture. The following year a branch office was opened in Singapore and representative offices in Hong Kong and Jakarta.

Last month the Chinese pact bore fruit. A joint-venture bank was established with the Agricultural Bank of China, Deutsche Genossenschaftsbank, the international finance corporation (a subsidiary of the World Bank), the Development Bank of Singapore and Yasuda Trust and Bankof Japan.

The bank will be based in Xiamen, a special economic zone, and will finance exports of Chinese farm produce and imports of machinery.

The new Dallas branch is designed to serve agribusiness throughout the whole American Midwest, where seeds where planted several years ago. In 1985, Rabo set aside $100 m for lending to the US farm belt and used its AAA credit-rating to guarantee loans, including a sophisticated one involving tax-exempt status to a rice marketing co-operative on the texas gulf coast.

San Francisco will cater to California's high value-added agricultural industry and serve as a bridge to the Pacific Rim.

Sao Paulo is an *entree* into South America, which is considered promising despite heavy debt problem. In Brazil, Rabo plans to finance commodity exports and provide expertise on major investment projects.

Rabo plans to increasingly tap the international capital markets and Switzerland was chosen as a staging ground although an exact venue has yet to be decided. Luxembourg could follow, according to Mr Klarenbeek.

Potentially one of the most dramatic developments are the talks within UNICO, the group of seven European co-operative banks from the Netherlands, France, Germany, Austria and Scandinavia.

The talks are intended to ferret out whether closer co-operation is possible and if so, in what form, explains Mr H.H. Wijffels, chairman of Rabo. A full merger seems unlikely though.

"It is not unthinkable to be brought under one institution but I definitely do not see it for the next 10 to 15 years," he says. "We are now identifying terrain where we can co-operate on a European scale."

Under consideration are several models. One is sharing central services such as treasury functions while retaining

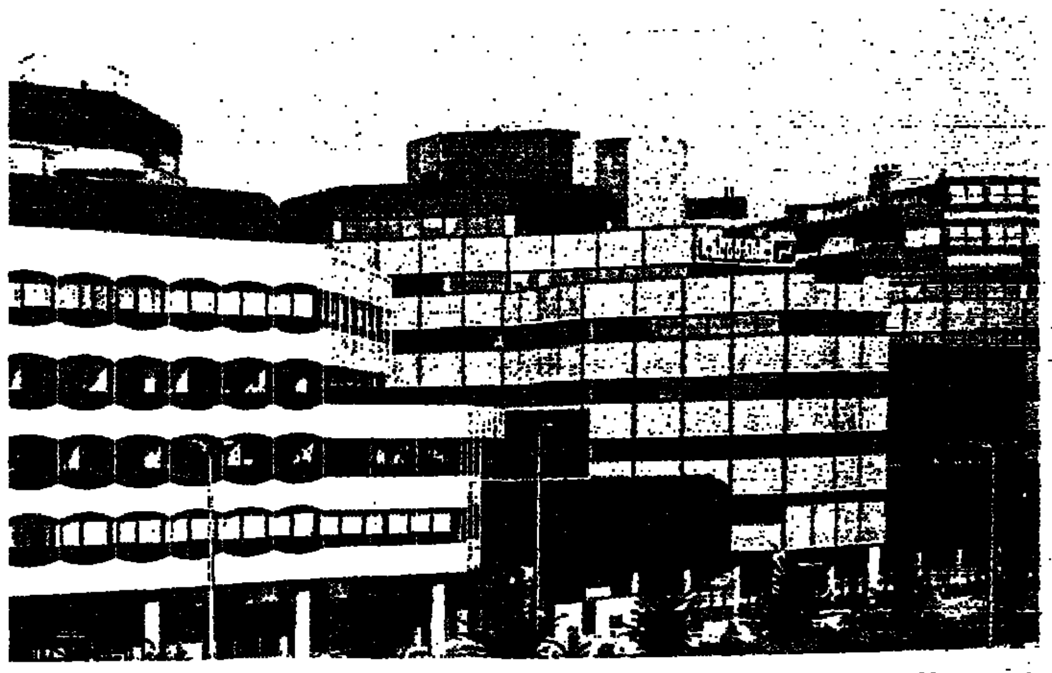
More local services at the local organisations. This would be like a super-co-operative.

Another is to participate in each other's activities through sharing-out arrangements or joint ventures. A third is to co-operate only outside europe or only in certain activities, such as merchant banking.

Whatever lies ahead for Rabo, it will remain a co-operative bank, Mr Wijffels confirms. No thought is being given to reconstituting the bank into a limited liability company even though it increasingly looks and acts like one.

"In the last few years we have devoted much internal discussion to what it means to be a co-operative bank in these times," he explains. "The core of our activities is credit. We have a very efficient system of attracting funds and recycling them. We are prepared for the increasing competition of 1992."

Laura Raun



Offices of Rabobank Nederland in Utrecht. It is the second largest Dutch bank, after Algemene Bank Nederland.

The Dutch Guilder

Welcome room for manoeuvre

THE PERSISTENT strength of the Dutch guilder since late last year has handed the De Nederlandsche Bank, DNB, welcome new scope for independent manoeuvre.

Since last November, it has been able to cut the official discount rate five times and bring interest levels down to a 16-year low of 3.25 per cent. Notwithstanding the guilder's historically close links with theWest German mark, DNB has three times cut its rate without a parallel move by the Bundesbank.

But is the strength of the guilder a sustainable result of good things in Holland or negative developments elsewhere? "The economy is basically doing quite well in terms of real growth," says Mr Wim. Duisenberg, the DNB chief who is also president of the Bank of International Settlements (BIS.)

Holland has been living in a virtually zero inflation environment although prices are expected to edge up by between 0.5 per cent to 1 per cent this year. The current account showed a surplus of Fl 7bn last year, and the 1987 trade balance, though weaker than 1986, was a positive Fl 10.65bn.

It is hoped that lower interest rates will stimulate domestic investment, which is declining after several strong years. The central statistics bureau, CBS has forecast a 4 per cent decline to Fl 15bn this year. Moreover, it will help reduce the Dutch government's debt service burden, which is the fastest-rising item of public expenditure. The budget deficit is currently running at about 75 par cent of national income.

The Central bank chief regards the financing requirement for government debt to be he running at double the acceptable level. "Whatever government is in charge, it will inevitably have to face some tough choices," he warns.

The Organisation for Economic Cooperation and Development(OECD) recently forecast that Dutch GDP growth will be only 1.5 per cent in 1988 (compared with 2.5 per cent last year) and 1.7 per cent in 1989. The Central Planning Bureau (CPB) regards this projection to be on the pessimistic side.

The fundamentals of the Dutch economy are among the healthiest in Europe. Nonetheless, external factors have also played an important role in bolstering the Dutch currency. The January announcement of a withholding tax on security transactions in West Germany was certainly one factor providing a "temporary lift," says Mr Duisenberg.

Another was "a psychological over-reaction" to a slight increase in the rate of inflation and the budget deficit in the Federal Republic.

As these work their way through the system, the central bank's priority will be to insure a stable rate of exchange – the guilder is now running at about Fl 1.12 to the D-Mark – and pursue a strong anti-inflationary monetary policy, Mr Duisenberg says.

DNB officials concede these are the key priorities; the independent rate cuts signal their willingness to act out of concert with the Bundesbank when this is considered desirable.

Still, the Dutch economy is highly dependent on bilateral trade th the Federal Republic, which absorbs fully a quarter of its exports. Roughly three-quarters of Dutch exports go to countries within the EMS system. The OECD expects Dutch export growth of 25 per cent this year, with a weaker development on the imports side.

With one of Europe's most open economies, the Dutch are particularly keen to insure a sustainable exchange rate equilibrium. Mr Duisenberg has been a strong advocate of European monetary harmony – and has tirelessly urged the UK to bring sterling into the EMS system.

The strength of the guilder has generated substantial capital inflows, largely concentrated in securities traffic. The government's latest Fl 3.3bn bond issue was subscribed to 40 per cent by foreigners, attracted by a liquid secondary market. A net outflow of funds has been reversed; from Fl 25bn in 1986, down to Fl 5.6bn last year, to a situation of broad balance so far in 1988.

Greater freedom of international capital flows particularly since an important deregulation move in 1986 has however slightly loosened the central bank's grip on monetary policy.

In an effort to strengthen its control and hold the lid on inflation, the DNB has announced a pair of new monetary policy instruments.

On the long-term side, it is building up a Fl 3bn portfolio of Dutch government bonds, bought at Finance Ministry auction, with the aim of using this liquidity to influence interest rates and send a signal of its intent to the market.

It subscribed 10 per cent of the latest 10-year Fl 3.3bn Government issue with a 6.5 per cent yield. To avoid inflationary pressures, the Finance Ministry will stop financing Treasury paper.

This is a system conceptually similar to the US Federal Reserve's buying and selling of Treasury certificates. Mr Duisenberg says, but obviously on a much smaller scale.

To influence short-term money rates, the DNB has also instituted a cash reserve system for the banks, under which they are required to deposit a certain fluctuating percentage of their assets in interest-paying central bank accounts.

The move signals a more market-oriented policy on the part of the DNB, Mr Duisenberg says. "Direct limits like credit ceiling can easily be circumvented," he says, adding "that the borders come down, there will likely be a need for further measures of this sort in the future."

David A.Brown

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World economic power is shifting towards the Pacific region. By the year 2000, East Asian economies will have a gross national product greater than Europe's and as big as North America's. The newly industrialised countries, South Korea, Taiwan, Singapore and Hong Kong, are experiencing unprecedented growth. In this 12-page report, David Housego explains why

New world in the making

BY ANY standards, East Asia has experienced two of the most extraordinary years in its post-war history.

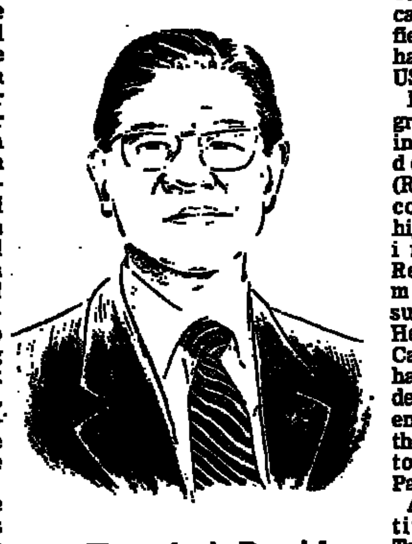
South Korea, Taiwan and Hong Kong have enjoyed an almost unprecedented boom in exports and economic growth. Their combined current account surplus reached almost $30bn last year, as compared with $39bn for the European Community.

Korea and Taiwan are in the throes of major political changes that mark the shift from military, autocratic regimes to civilian and more democratic rule. The liberal reforms echo similar trends that have been taking place in China and the Philippines, and which are beginning to touch Vietnam .

Japan has also accomplished an historic shift in the wake of the rise of the yen, with domestic demand taking over from exports as the main source of economic expansion. As a result it is purchasing far more manufactured goods from the rest of Asia and investing more heavily in Korea, Taiwan, Hong Kong Thailand and Singapore.

These developments are reinforcing the shift in economic power in the world towards the Pacific region. By the end of the century East Asian economies will have a joint gross national product greater than that of Western Europe and as big as North America. Thirty years ago Europe's GNP was three times as large and North America's twice the size.

By that time the Japanese are likely to hold abroad the same amount of foreign assets as the US or Britain did in their hey-day. Both Korea and Taiwan will be medium-sized industrial states. The Asian seaboard, fringed with large urban and industrial zones like Shanghai, Guangzho (Canton), Hong Kong, Bangkok and Singapore, will seem somewhat like Southern Europe today.



Lee Teng-hui, President of Taiwan, has abandoned the patriarchal style of the Chiang family

Compared to the other great blocs in the world – the US, the European Community, or the Soviet Union – this is an untidy grouping of countries. But the Asian Pacific region is beginning to develop an identity of its own.

Its members trade with each other and invest in each others countries much more than they did a few years ago – a trend that will continue. The appreciation of the yen has dramatically opened up the Japanese market to Asian goods and increased Japanese investment in East Asia.

Japanese imports from Korea, Taiwan and Hong Kong rose by almost 50 per cent last year while Japanese investment in Asia Pacific has more than doubled in two years to $6bn. Korea, Taiwan and Hong Kong are also trading and investing more with China and South East Asia.

Regional trade is expanding because the markets are large, incomes are growing and import barriers are being hesitantly, but slowly reduced. But trade is also growing because the barriers that divided capitalist and communist Asia are being eroded. The ideological conflict that marked the post-war years is giving way to an easing of tensions and a renewal of dialogue.

This is the first decade since the Second World War when there has not been a major war in Asia. "We live," says Mr Saburo Okita, the former Japanese Foreign Minister whose experience government stretches back 40 years, "in a period of peace."

Already Communist China has opened its doors to trade or investment from its capitalist neighbours to inject fresh vitality into its economy. But the paradox of East Asia is that alongside some of the world's fastest growing countries, there are also those with the greatest underdeveloped potential – not only China, but Vietnam, North Korea and even possibly Burma.

It is hard to believe that these will cling to a rut of stagnation that both China and the Soviet Union are abandoning.

As trade within the Asian Pacific region grows, so it will reduce the dependency of its faster-than-average growing member states on the slower growing economies of the West. This partial decoupling should thus help to reduce trade frictions between the Asia Pacific Region and the US and Europe.

The major reason for believing that the economies of the Asian Pacific coast will continue to outpace those of the rest of the world lies in the shift in global trends in manufacturing.

As a proportion of GNP, manufacturing remains on a long-term decline in both Europe and the US. For a large number of years, Japan benefited from this movement. But with the appreciation of the yen, manufacturing in Japan has become too costly as well. The countries best placed to "fill the void," says Mr Shaw Sing-ming, vice-president of Capital Research International, are located along the Asian Pacific Rim.

Korea, Taiwan, Hong Kong and Singapore already owe their success to their efficiency in making goods cheaply and well. Their share of world trade in manufactured goods has jumped from just over 4 per cent 13 years ago to 11 per cent last year. They account for almost two thirds of exports of manufactured goods by developing countries.

Their competitive advantage used to lie in low-cost, highly disciplined labour that achieved high rates of productivity. Increasingly it lies in a highly trained workforce, with a growing number of engineers, the result of a rapid expansion of school and university systems. They are the first developing countries with the potential to exploit the microelectronic revolution which enables products to be replaced more rapidly and produced more cheaply.

This skill base means that they can look to larger gains of productivity from increased automation or "just-in-time" management techniques they have barely begun to exploit.

"A high degree of automation is possible but at lower cost" than in the West, says Tam Chung-ding, vice-president of Motorola Semiconductor Hong Kong. Motorola has just opened a new automated plant in the colony, where it can obtain qualified engineers at a half to a third of US costs.

It also means a growing capability in research and development (R&D) work with correspondingly higher margins for industry. Reflecting this, multinationals, such as Philips, Hewlett-Packard, Canon and Sony, have been shifting design and process engineering from their headquarters to their Asia Pacific offices.

At the same time, Korea, Taiwan, Singapore and Hong Kong have been increasingly focusing on the sectors of world trade that are the fastest growing or hold the key to future industrial change – consumer electronics, data processing and semiconductors. Korea and Taiwan in particular have pushed into integrated circuit design, with Korea making its own large capacity memory chips and Taiwan building a reputation in custom-tailored circuit designs.

In their wake, Thailand, China, Malaysia, and even Indonesia are taking up the toys, footwear, garments and electronics components industries that the "four tigers" are gradually being forced to abandon.

In Thailand, manufactured goods overtook commodities as the country's main export last year, a pointer to a global trend by which comparative advantage lies increasingly with countries that exploit their labour and educational skills rather than with those which are resource rich.

Echoing a famous analogy, used by the Japanese economist Kaname Akamatsu, East Asia's economies have been likened to a flock of flying geese. These geese are now soaring.

This report focuses on the four newly industrialised countries (NICs) – Korea, Taiwan, Hong Kong and Singapore – and what lies behind their competitive strength. But because East Asia is a series of communicating chambers – and the future of the four is indissolubly linked with that of China and Japan, as it is also with that of South East Asia – the report is also about the region.

Later sections will look more briefly at southern China, Thailand and Malaysia as countries (or areas) seeking to exploit the same types of comparative advantage. The remainder of this section is concerned with the pace of change, the region's growing self confidence and the trade issues that emerge.

The Four are a unique phenomenon in the post-war world. No other group of countries has been quite so successful – just compare Latin America's outstanding debt last year of $410bn with the $30bn current account surplus earned by the four NICs. For the Koreans, at least, this autumn's Olympic Games in Seoul is a way of receiving the world's saluta.

It is also unlikely in the future that any group of countries will be able to exploit the world's free trading system so successfully to increase exports – as did Japan, Korea and Taiwan – while maintaining substantial barriers to other countries imports. Reciprocity will increasingly be the name of the game.

From now on developing countries as well will have to take account of the competition from an outward looking China, which is so large as to be several developing countries rolled into one.

For all these reasons, Dr Milton Yeh, of the Institute of International Relations of the National Chengchi University in Taiwan, calls this a period of "a change of a generations in East Asia." He is by no means the only one to feel that the landscape is changing more fundamentally than at any time in the last 20 years.

There has been the appreciation of the yen which almost doubling at a stroke Japan's assets in dollar terms and has confirmed the tilt in the balance of economic power from the Atlantic to the Pacific.

The result has been the redeployment of Japanese resources and shifts in trading patterns. And coinciding with it has come a cluster of major political and social changes in East Asia.

New leaders have taken over in Korea and Taiwan. Authoritarian, military regimes have been replaced by civilian and more democratic governments. In Taiwan President Chiang Ching-kuo himself ended martial law some six months before his death early this year.

Growing middle class support for liberal reforms means that there is unlikely to be any turning back of the clock. In Singapore, Mr Lee Kuan Yew, who has been head of government since independence, could half step down before the year is out, by resigning as Prime Minister but taking over as President.

Governments are also having to cope with new problems that they could side-step under more authoritarian administrations. Higher levels of income and education have increased expectations. Korea had its first major strikes last year and there have been stoppages at plants in Taiwan this year. Labour in future is a voice that will have to be taken into account. Farmers, environmental and consumer lobbies have also sprung up and taken to the streets in often noisy demonstrations, reflecting a more vocal public opinion.

It is possible to argue that these changes will be disruptive to economic growth, facing governments and societies with problems all too familiar in the West. But the discipline of authoritarian rule was also a dead end.

Korea, Taiwan, Singapore and – more hesitantly – Hong Kong, are moving to levels of technology that require an ability to accept responsibility, to take decisions and to think creatively. Their education systems are increasingly preparing their students to do this.

The corollary is a more assertive public opinion that wants a share in the choices that government makes. In this sense the social and political changes taking place are for the good, and part of the transformation towards industrialised country status. But they are obviously tricky to handle.

Mr Lee Kuan Yew, the Prime Minister of Singapore, says that: "the Pacific Basin is the region with the greatest potential for development and growth for the next 100 years. What Japan has done, the other peoples along the Rim, Koreans, Chinese, Vietnamese, can do, though perhaps less spectacular in results. The peoples of East Asia, about 1.25bn, have similar cultures with similar levels of pre-industrial civilisation as Japan."

There are other more tangible indicators to back Lee's optimism. Dataquest, the US market research group, forecasts that consumption of semiconductors – an indication of the pace of growth of the electronics industry in East Asia (excluding Japan) – will overtake that of Europe by 1992.

Roh Tae Woo, unlike previous Presidents, cannot afford to ignore South Korea's National Assembly

The International Civil Aviation Organisation (ICAO) foresees that by 1995, freight traffic within the Asian Pacific region will have overtaken that for both Europe and North America.

East Asia's higher levels of productivity and growth will be uncomfortable for the US and Europe. East Asia today looks on Europe with much the same benign paternalism as Europe showed to India in the 18th century. "Europe is a place where you consume and spend money rather than produce things," says Mr Shaw Sing-ming.

But competition need not give way to confrontation. Korean conglomerates have pushed their way into Western markets with all the brash aggressiveness of newcomers seeking to make their name. Both the US and Europe should ensure that they do not overstep the rules of free trade, by threatening them with anti-dumping suits or other retaliatory action where necessary.

But the more hopeful reason for that confrontation can be avoided is that multinationals the world over are becoming more interdependent. They buy components or finished products from each other to keep their costs down. They develop technologies together. Both Korean and Taiwanese companies can benefit from this as they come to develop microprocessors or high definition TV. Lone players get cut out of the game.

Take a map of the world and look at the Pacific. What is immediately striking is how small in size are East Asia's fast growing economies. They seem to huddle under the great land mass of China and the Soviet Union as though frightened of being swept out by the tide.

The fact of being small has been no deterrent to economic power, as the histories of Britain, Portugal and Japan have shown. But psychologically it can provoke feelings of isolation, insecurity and defensiveness.

Korea, Taiwan, Singapore and Hong Kong have known all these while living under the nose of the communist world and tolerated with condescension by the distant industrialised community of the Atlantic.

Professor Chun Hong-ik of Seoul National University remembers a British MP visiting Korea in the 1960s and dismissing it with the phrase "You can't grow roses in a wastepaper basket."

Occupied by Japan before the Second World War and carved up by the US and the Soviet Union at the end of it, South Korea, in ideological conflict with the North ever since, is a country that has often felt that it has few real friends.

Taiwan was an offshore bolt-hole for Chiang Kai-Shek's armies driven off the mainland by the Communists. For a long time it lived with the dangerous pretension that the mouse still ruled in the kingdom of the rat – that the Kuomintang (Nationalist Party) still controlled the mainland. When the US, in 1979, joined the rest of the world in formally recognising Communist China, Taiwan was left ostracised by the international diplomatic community, and in virtual isolation.

Ministers in Singapore will still insist on how small a state it is, to drive home the vulnerability of a small population of Chinese living among so many Malays. And Hong Kong, despite the protection of its treaties and its Gurkha troops, has ultimately lived on sufferance from Peking.

The parting memories of this correspondent on his last visit to East Asia in 1980 are of economies that felt vulnerable and under siege – notwithstanding the high growth rates of the 1970s. Seoul was a capital under curfew. You had to dash back to your hotel through already empty streets before midnight if you were not to be stopped by a police patrol. At Pusan University in the south, tanks stood on guard at the campus gates.

Taipei felt humiliated by the US "betrayal" but was unable to shake off the pretence that the Kuomintang (KMT) would one day again take its place as the Government of the mainland. The city's shabby architecture remained that of a transit camp, as though to prove that the dream would not be abandoned.

South East Asia – and Thailand in particular – still lived with the uncertainties of a communist victory over the US in Vietnam and the threat of Vietnamese power in Indochina.

The most striking change for anyone returning to East Asia is its new self assurance. Mr Steven Champion, President of International investment Trust in Taipei, says of Taiwan (but it is as true of most other places on the Asia Pacific Coast) that "the level of self confidence has increased dramatically over the last few years."

It is the confidence that comes from being the world's most successful exporting nations. It comes in Taiwan's case from accumulating foreign exchange reserves of $74.1bn in 1987, which puts it ahead of the US and Britain and just behind Japan and West Germany. Economic success has brought the recognition that diplomacy failed to bring.

The increased self assurance has also come from the breaking down of the barriers with the communist world and the failure of the communist economies. Mao Zedong proclaimed in the 1950s that "the East wind is prevailing over the West wind" meaning that the communist world was gaining ground over the capitalist. Thirty years later it is the communist world that looks to the economies of Japan, Korea, Taiwan and Singapore to see what it can learn from "authoritarian capitalism".

Mr Kim Mah-je, the former Korean Deputy Prime Minister says that the Chinese want to create their own state trading and industrial companies on similar lines to the Korean conglomerates. "They keep on asking us questions about the *chaebol* (conglomerates)," he says.

Instead of the cold hostility that divided the two camps, Taiwanese are now openly travelling to the mainland and illicitly trading and investing in it. Hong Kong industrialists have found a whole new world of business opportunities opening up across the border in southern China, through the Communist open-arms policy towards joint ventures and assembly operations.

As a result investments made by Hong Kong businesses in China, nearly half of those working for Hong Kong's industrial companies are situated across the border on the mainland. Such links do not remove Hong Kong apprehensions about what happens when the Chinese resume sovereignty over the British colony in 1997. But for many businessmen they help to diminish the doubts.

Continued over

Bond Centre, Hong Kong.

When the working week is over there is one more mountain to climb

HOLIDAYS are few and far between for most Koreans. The average working week has climbed over the last ten years of rising living standards from 51 hours to 54 hours.

Saturdays are almost a normal working day. Annual holidays are for most people a week or two, but many cannot get away or swap them for additional pay. The one occasion that everyone has a few days off – well almost everyone – is the Chusok holiday in the autumn.

But even Koreans rest on Sunday. For the 10m people who live in Seoul, Sunday is a chance to escape the city's traffic jams, its noise and pollution. A favourite Sunday relaxation is to climb Mount Pukhan, only a 40 minute, 15 cents bus ride from the centre of the city.

Its white sugar loaf dome dominates the northern edge of the capital. Koreans pour there in their tens of thousands. They dress for the occasion in neat mountain boots, colourful woollen socks, bright red or blue anoraks and matching pork-pie or Tyrolean hats. The smartest – and to be elegant is the norm – wear white woollen gloves and neat scarves tied round the neck.

The trail winds up from the Sudhok (Cultivation of Virtue) Buddhist monastery favoured by Mrs Park Chung Hee, the former President's wife who had a tarmac road built up to it for easier access. But from there the track climbs steeply.

Koreans are passionate hikers and like to take the shortest way up. On Sunday the cavalcade of climbers is so large that you scamper on the heels of the person in front. Groups stop to picnic or to camp. The smell of grilled meat is never far away, with many carrying up stoves on which to cook their bulgolgi (Korean kebabs).

Makeshift restaurants or refreshments houses dot the mountainside. But to prevent the slopes being deluged by litter, rubbish collectors follow the hikers on foot gathering up with their tongs bits of paper or beer cans dropped on the way.

Most of the hikers are young people, reflecting the fact that 45 per cent of Seoul's population are students. But the climb is also done by the middle aged and elderly from Seoul's professional classes. At the top, the mountain echoes with shouts and singing. Asians take their pleasures noisily.

But even on this day of relaxation politics is never far away. A large notice at the beginning of the climb warns hikers to be aware of spies from North Korea and to report them immediately – telephone numbers are conveniently provided.

On the downward stretch there are instructions as to what to do with North Korean leaflets that might be dropped by balloon. Just by the open cafes at the foot, is one of those games that might horrify pacifist parents in the West, but seems to delight Korean children.

With a small hammer you bash on the skull the heads that pop up from an amusement table. Needless to say they bear an uncanny resemblance to Mr Kim Il-sung, the North Korean leader, or to North Vietnamese soldiers. But the amusement table looks an old one and maybe the game is going out of fashion.

Continued from previous page

South Korea is opening up diplomatic missions in East Europe as part of what is bound to be much broader exchanges with Eastern Europe. It is also developing the south western region of the country in anticipation of growing trade links with China.

This trend towards dialogue with the communist world is bound to have its setbacks – as with the blowing up of a South Korean airliner by terrorists from North Korea in December last year. But the momentum is now established. And with the Soviet Union and China behind it, it can only be time before it embraces North Korea as well.

A further reason for confidence is that the sense of isolation is less. There are not only the growing links with the communist world. But as their economies gain in strength and they move towards more sophisticated technologies, they are increasingly able to draw on the far-flung pool of Chinese and Korean talent that emigrated abroad.

Chinese Americans are thick on the ground in US universities and in the US electronics industry. There are 1m Koreans on the West Coast of America. Chinese communities in Canada and Australia are growing.

Thus the Chinese and Koreans of East Asia increasingly feel themselves part of an international Pacific world of which the centres are San Francisco, Los Angeles, Hong Kong, Taipei and Seoul.

This greater self confidence has been reflected most noticeably in the readiness of governments to take risks with political reforms. Korea has got its first freely elected civilian government in almost 30 years. Taiwan has its first native born President after two generations of the mainland-born Chiang family as head of government and head of state.

Newspapers in Korea and Taiwan carry more reports and comments critical of the Government. Opposition parties have more freedom to organise. Students, farmers, and workers are also freer to organise themselves, to protest and to demonstrate.

Greater confidence is also reflected in the growing style and international flavour of Asia Pacific's major cities. Hong Kong has long been an important financial centre. But its wealth and cosmopolitanism flash ever more insistently from the new skyscrapers that dominate the waterfront – as though to defy the uncertainties that 1997 and the ceding of sovereignty to China could bring.

In Seoul, the shiny twin towers of the Goldstar buildings proclaim across the Han river that this is a global company with global ambitions. With a 10m population, Seoul is a city bursting at the seams and almost as large as Paris.

Beneath the cosmetics of its gaudy neon lights, Taipei has not yet lost the character of a shanty town. But with its new Japanese department stores, its high rise hotels, its American fast food restaurants and its shops filled with European clothes and cars, it is one of the fastest changing cities in Asia.

CURRENCIES

Taiwan	£1=NT$ 51.3	US$1=NT$ 28.6
Hong Kong	£1=HK$ 13.9	US$1=HK$ 7.8
Singapore	£1=S$ 3.6	US$1=S$ 2.0
S.Korea	£1= Won 1298.9	US$1= Won 731

The Chinese and Koreans of the Asian coastline are also far more internationally minded than their Japanese counterparts. They generally speak better English: they are more oriented towards the US because American influence since the war has been strong: and they travel more than the Japanese did at a similar period of development (and will travel much more as foreign exchange rules are liberalised).

The notable exception to Asia's swelling self assurance is Singapore. The country has a great deal going for it. It has the highest living standards in the region, outside Japan, and it houses its citizens better than the Japanese. It understands and works well with the multinationals which account for most of its manufacturing exports. It has skills, foreign exchange reserves, and a global framework that allow it to look to new horizons.

But Singapore looks inwards, and is frightened by what it sees. Its ministers talk of "living on a knife edge" or of the need to be on "maximum alert." While East Asia looks for new fields of expansion, Singapore talks of the limits on growth. While the parameters of public debate grow wider in Korea and Taiwan, Singapore restricts the circulation of foreign newspapers.

This report has so far looked at the longer term perspective. But governments and business are more preoccupied with whether current trade disputes forewarn of a nastier confrontation.

The Asian Pacific boom of the last two years was an exceptional phenomenon. It came about because the US was unwise enough to press for an appreciation of the yen while forgetting about the NICs; their exchange rates fell against European and Japanese currencies.

The result was that the Four had a grossly undervalued exchange rate in real effective – trade weighted and inflation adjusted – terms (see chart) which allowed them to boost exports by an average 22 per cent in real terms last year and thus cut a swathe out of the Japanese share of the US market.

As Mr Kim Mah-je says, with the dollar's depreciation against the yen "we hit the jackpot" – he was referring to Korea but his remarks are applicable to the other NICs.

In different ways the four countries had strong reasons to exploit the windfall. When the Plaza agreement was signed in October 1985, Korea had emerged from a lengthy stabilisation programme that had restored, competitiveness after the inflationary surge of the years 1979 to 1982. Its industries had again begun to invest substantially in 1984/85. It also had outstanding foreign debt of $46bn that it wanted to repay. It was not going to look a gift horse in the mouth.

Taiwan too had been cutting back on public investment after the heavy outlays in steel, petrochemicals, shipbuilding and infrastructure projects in the 1970s. Fixed capital investment by the public sector had fallen from 16 per cent of GNP to 8 per cent, thus freeing resources for an expansion of the export sector.

Singapore had suffered the first recession of its post-war history in 1985, with a negative growth rate of 1.8 per cent. This provided a nasty jolt to the business community and to the Government's self-confidence in its management of the economy. So Lee Kuan Yew had good reason to be pleased at the prospect of higher growth.

Hong Kong's businessmen were busy exploiting an unexpected gold mine; the seemingly unlimited sup-

Adjustments should gradually bring down current account surpluses over the next two years

plies of low-cost labour that became available as China opened its doors to joint ventures and assembly operations with Hong Kong businessmen.

In addition, Hong Kong had an administration which had made fixed parity with the US dollar a matter of principle. Hong Kong was therefore geared up for an export drive.

The boom has also been self fuelling in that it accelerated investment. The three large Korean electronics groups, Samsung, Goldstar and Daewoo, expanded capacity by about 80 per cent last year to increase sales of video cassette recorders (VCRs), microwave ovens and other consumer products that the high-priced Japanese yen had made too expensive.

At the same time they have been investing to make the components themselves that they bought from the Japanese but that had become too costly. (One of the ironies of the situation is that what the Japanese lost in market share in the US they largely regained by component sales elsewhere in Asia.)

Government leaders in the NICs knew that the "jackpot" could not last for ever. All have run into the bottlenecks of labour shortages and capacity constraints that come with running their economies at annual average growth rates of over 10 per cent. They are already suffering the inflationary consequences of higher wages, now being pushed up by a more militant union movement.

Current account surpluses – amounting in Korea's case to almost 9 per cent of GNP and in Taiwan's to 22 per cent – are adding further inflationary pressures, as is evident in booming (though volatile) stock exchanges and real estate prices.

Faced with surpluses of this size, public opinion in Taiwan and Korea has come to realise that the tide of fortune has turned and that there are other things to life but exporting, working and saving.

Under their more democratic, regimes, people are putting pressure on their governments not only for a larger share of the cake in terms of income distribution, but also for improved housing, social welfare and for less industrial pollution. Neither country will neglect domestic expenditure for as long as did the Japanese.

Governments have also begun to implement some of the other measures that diminish trade friction. Taiwan and Korea have been lifting foreign exchange controls, liberalising (a little) their financial markets, letting their currencies appreciate, and opening their markets by lowering trade barriers. Korea, which has taken an important step in announcing interest rate deregulaion, needs to do far more to lift the value of the won.

But the surest sign that changes in policies and habits are beginning to have their effect is the sharp increase in import volumes. Taiwan's imports rose by 22 per cent in 1986 in real terms, after an average annual increase of only 6 per cent between 1981 and 1986.

These adjustments should gradually bring down the NICs' current account surpluses over the next few years. It would be bad management on the NICs' part if surpluses did not come down because a current account surplus represents an excess of savings.

In countries like Taiwan and Korea, which still have large urban slums, inadequate housing, and plentiful opportunities open for profitable investment in industry, it would be a waste of resources to allow them to pile up in depreciating foreign assets.

But over the long run, adjustment will increase the competitiveness of the Asian NICs, by carrying their industries into areas where they can further exploit the revolution in microelectronics to produce a greater variety of products, more cheaply and with a shorter product life cycle. As their lesson is now being learned by the rest of the East Asian seaboard – China is only just beginning to make felt its vast potential – the region's share of the world trade in manufacturing will grow.

This is not only, or primarily, a result of East Asia's own sales efforts. US, European, and Japanese multinationals are increasingly purchasing components worldwide where they can obtain them the most cheaply. East Asia's continuing high productivity will give it a strong comparative advantage.

This will pose a competitive threat not only to some industrialised countries but also to developing economies which fail to read the message that as products change increasingly rapidly, those countries which combine speed and flexibility will have the edge.

Governments which limit technology transfers and slow the pace of change by cumbersome systems of industrial licensing (India and Latin America take note) will be left behind.

Some lessons, however do emerge. The first is that countries like the Asian NICs which have prospered from a global free trading environment must live by its rules. The US and Europe should be merciless against Korean, Taiwanese and Chinese companies which dump, counterfeit, fail to pay royalty rights on new technology or put up import barriers.

But it is equally misguided to expect East Asia to do too many things at once – eliminate trade barriers, open up financial and capital markets and appreciate their currencies to realistic exchange rates. That is the direction in which disorder lies.

The second lesson is that Korea, Taiwan, Singapore and Hong Kong, must be drawn into the consultative mechanisms of the world's monetary system as rapidly as possible. A large part of the Asian NICs' recent export boom has been due to their heavily undervalued exchange rates.

This might have been avoided if they had had a place within the international consultative machinery that keeps watch over global imbalances and exchange rate movements.

The most obvious forum for them to join is the OECD which provides for consultation over currency, balance of payments and trade issues. OECD membership would also recognise that they carry the weight of industrialised nations and that the existing club of 24 members is capable of opening its door to new entrants.

The difficult problem is that Taiwan, which has among the strongest claims to be a member and wants to join, remains an outlaw from international organisations because of the dispute over who represents China.

This is an issue that Taiwan has to solve with China. But it is in both Taiwan's and the West's interest that some compromise formula be found.

The third lesson to emerge from East Asia's experience is the close links that there have been in the past between aggressive exporting and regimes that felt under external threat and had authoritarian governments.

Taiwan, Korean and the immigrant Chinese of Hong Kong have all been motivated by the belief that accumulating foreign exchange gave them some independence from the dangers that they sensed from the Communist mainland or North Korea.

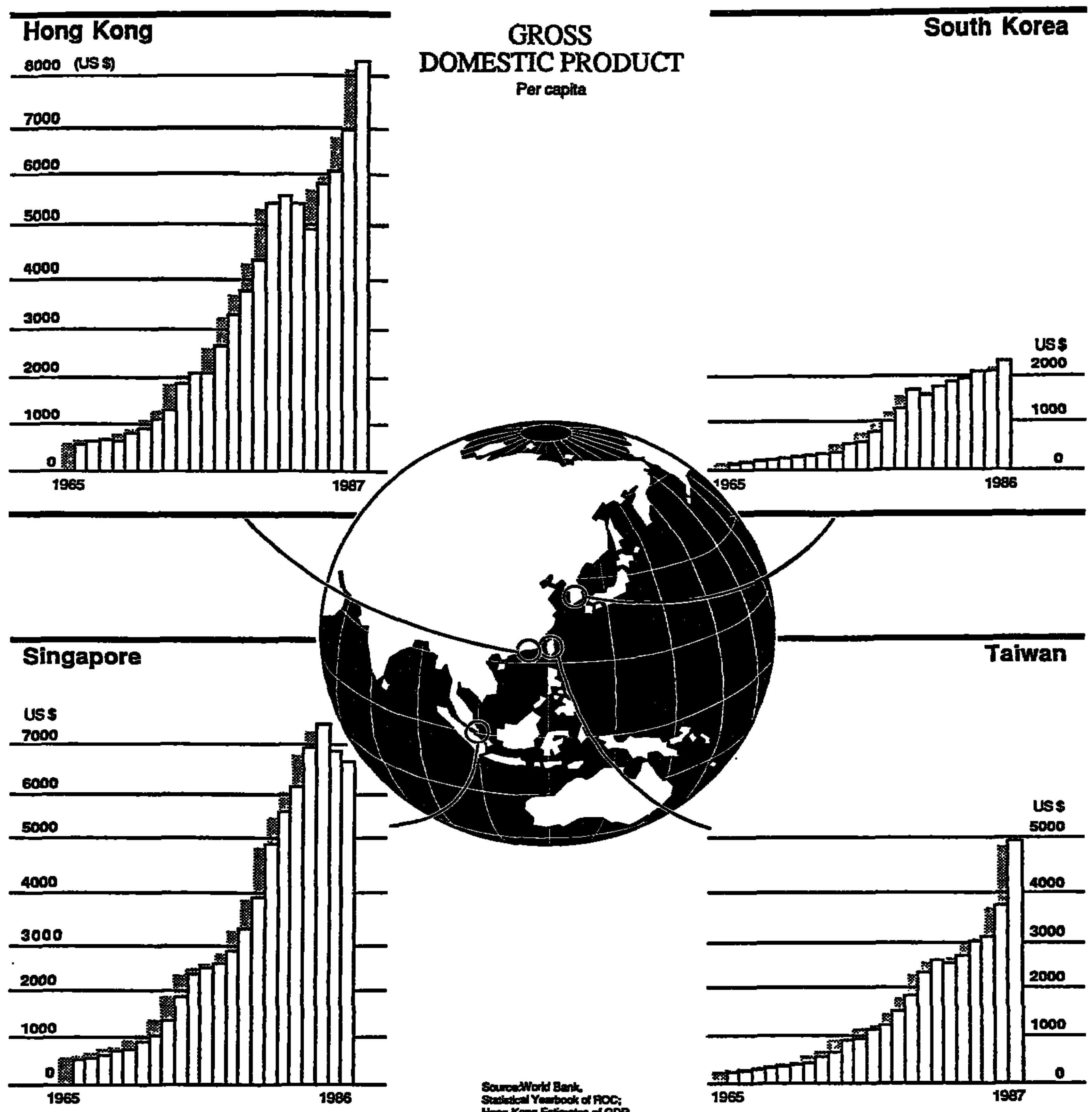
Economic success, and hence strong export growth, was one of the ways that authoritarian governments sought to win the legitimacy they otherwise did not have.

East Asia's economies are now more likely to be fully integrated with the world's trading system (with the obligations that imposes) if they feel less isolated and threatened, and their regimes are more democratic.

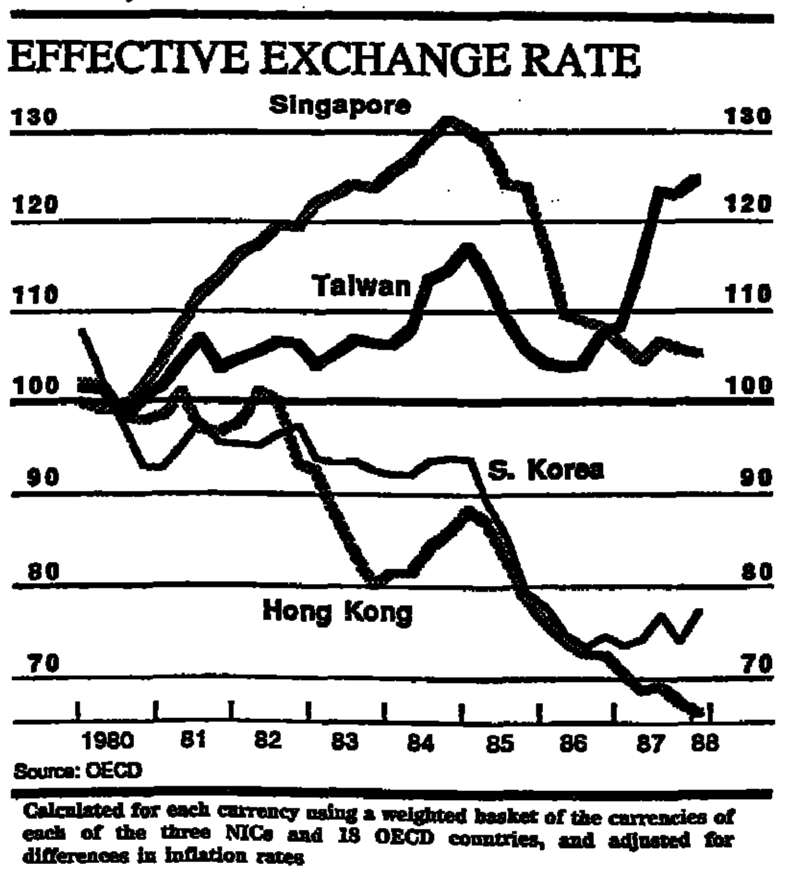
The US and Japan, as Pacific powers, obviously have a key role to play in helping to reduce regional tensions further. But Europe can help as well – whether it is through the British diplomacy that is resolving the future of Hong Kong or through Europe trying to play the broker with some of East Asia's outlaw regimes like North Korea and Vietnam.

The final and in some ways most important lesson concerns Japan. Europe and the US are going to be increasingly reluctant to provide an open market for East Asia's goods unless Japan takes the lead in further increasing its imports from the region. Happily Japanese purchases of East Asian textiles, electronics and household goods are rising sharply. They should grow even faster as a result of growing Japanese investment in South East Asia – so that eventually Japan takes over from the US as East Asia's major market.

Among industrialised countries, Japan has the most interest in seeing that East Asia's integration into the world trading system proceeds smoothly. For if there is a backlash in the US, Europe or among developing countries to East Asia's expanding role in manufactured trade, it will hit Japan as well. Hence Japan sponsoring of the NICs' membership or association with the OECD. It is one small step towards Japan's assuming global responsibilities commensurate with its economic power.



Source: World Bank, Statistical Yearbook of ROC; Hong Kong Estimates of GDP



Source: OECD

Calculated for each currency using a weighted basket of the currencies of each of the three NICs and 18 OECD countries, and adjusted for differences in inflation rates

FRAMEWORK

The legacy that paid big dividends

Foreign investment, entrepreneurial flair, education and a 'workaholic' labour force have helped transform the bleak post-war landscape

TO MEASURE the distance that East Asia's economies have come it is necessary to cast your mind back to the early 1960s. After 35 years of humiliating occupation by the Japanese and then almost a decade of continuous civil war, South Korea emerged in 1953 with its towns in rubble and its industry in ruins.

Taiwan, which had been under Japanese occupation for 50 years until the end of the Second World War, had been taken over by the fleeing armies of Chiang Kai-shek, the Nationalist or Kuomintang (KMT) leader of China.

The Nationalists' record of corruption, mismanagement and internal quarrels when in power on the mainland had been at the root of their defeat. They had already incurred the anger of the Taiwanese by killing 10,000 to 20,000 of them in an act of military savagery.

Hong Kong had been flooded with refugees as a result of the upheavals which brought the Communists to power on mainland China, while Singapore, also under British rule, had been badly mauled by the Japanese occupation during the Second World War.

In the early 1950s, Singapore was also faced with a growing communist insurgency in the Malay peninsula and deteriorating racial relations between Chinese and Malays.

By no means all of the developing world had emerged from the war in such bad state. India – notwithstanding the massacres that had accompanied partition – had come through with its rail and irrigation systems intact and with a substantial industrial base. It also had at that time the largest textile industry of any developing country. But Mr Nehru turned his back on the opportunity to grab the trade on which South Korea, Hong Kong, Singapore and Taiwan were to base their success.

There was thus nothing in the post-war landscape which foretold of East Asia's leap ahead. However, in the period 1965 to 1973 Korea, Taiwan, Singapore and Hong Kong averaged an annual 10 per cent growth in gross national product (GNP). This was just above that of Japan and more than double that of other industrialised countries. From 1973 to 1987 they averaged an annual 7.7 per cent growth rate, which was double that of Japan's and about three times that of countries in the Organisation for Economic Co-operation and Development (OECD).

In terms of income per head, Korea, the lowest of the four at $2,822 a head in 1987, had easily overtaken Argentina, Mexico and Brazil. But it was also ahead of Portugal and Yugoslavia. Taiwan, the second richest of the group in per capita terms had an income of $4,991 in 1987 which put it ahead of Greece and Turkey and not far behind Spain and Ireland.

Last year the four achieved a combined current account surplus of $30bn, which is a third the size of Japan's, and compares with a $5bn deficit run up by the European Community if West Germany's $44.3bn surplus is excluded. Their share of world trade in manufactured goods has jumped from just over 4 per cent in 1975 to 11 per cent – just short of Japan.

How did they do it? The rest of this section looks at some of the reasons behind their success.

LEGACY. The impression of desolation and disorder after the Second World War was in some ways deceptive. Japan had humiliated the Koreans and Taiwanese, treating them as subject people to the point of making Japanese the language of schooling.

The colonies were intended to enrich Japan by supplying food and raw materials and, during the war years, industrial goods. The Japanese set up industries – steel, automobiles, chemicals, aluminium, machine tools and textiles – to take advantage of cheap labour. They built roads, railways, dams, generating plants, new towns and ports. They extended primary and vocational education.

The war destroyed much of this. But Korea and Taiwan had already been launched some way down the

Continued over

A speculator's dream come true

"HONG KONG is a place for speculators ready to work hard and devote all their time to business."

Mr Clifford Pang remembers reading that in 1969 in a Time magazine article about a Hong Kong businessmen who had made a fortune out of nothing. Mr Pang was a civil engineer working in Canada at the time, designing bridges and highways for the Canadian Government.

He had no money himself and the phrase stirred something in him. He decided to return to Hong Kong.

He is now President of Lafe Holdings, a Hong Kong manufacturer of magnetic heads for computer disk drives, which has an annual turnover of HK$ 175m (£11.9m). He holds a 75 per cent interest in the company which went public last year, raising HK$ 80m on the Hong Kong stock exchange.

Profits should be further boosted this year by shifting the bulk of the manufacturing operations from Hong Kong to southern China where labour costs are only a quarter of the Hong Kong level.

The ups and downs of Mr Pang's business career go a long way to explaining the energy and money-making verve which are the hallmarks of Hong Kong entrepreneurial flair.

When he got back to Hong Kong in 1969, it seemed the worse moment to go into business. The territory was still reeling from the uncertainties of the Cultural Revolution on the Chinese mainland.

Mr Pang got a job in Hong Kong as a HK$ 2,000-a-month sales manager for a local property development group.

During his first three years in Hong Kong he got pay increases which tripled his salary, and rose to become property development manager. But he quit in a row with the company's owners after they went back on a promise to pay a 10 per cent bonus.

His next move was to start a construction company. But that went through bad times in the recession years between 1974 and 1977.

On top of that he had been speculating on the stock exchange by purchasing shares "on margin". When the crash came in 1973 he lost all his savings. That frightened him off stock market dealing, and since then he has been very cautious about buying shares.

By the late 1970s, as land and property prices started to soar in Hong Kong, he moved from property development to dealing in real estate. With hindsight, his most successful move was to sell everything just before the property market crashed in 1981.

"I got out just in time," he says. With the funds he realised he bought four appartment blocks in Toronto – he reckoned the city was the most under-priced in North America – and kept back US$ 1m to start a manufacturing business in Hong Kong.

Initially he looked at the possibilities of toys, garments, electric appliances and computers. Then he scanned company reports in Hong Kong to see which had the highest profit growth.

He came across a company called Atlas Electronics which increased net profits by 27 per cent in 1981 and was making magnetic heads for computers. He decided to try the same business.

Having no experience in magnetic heads himself, Mr Pang recruited Chinese engineers, both locally and from North America. By chance and good luck, he ran into a cousin, Kenneth Chow, now executive vice-President, who had been making heads in the US and had been involved in the design of an 8-inch floppy disk drive. "I talked him into coming back to Hong Kong," says Mr Pang.

Together they set out to find US computer manufacturers seeking to subcontract, on an OEM (original equipment manufacturer) basis, the manufacture of magnetic heads for disk drives.

Their first breakthrough came when the Hong Kong Department of Industry telephoned to say Control Data of the US was looking for a magnetic head supplier. Eventually Lafe won the contract after submitting samples that met Control Data's quality standards.

Its second breakthrough occurred in 1984 when at the height of the computer boom, Japanese suppliers of recording heads failed to meet the demand. By then Lafe was increasing turnover at 70 per cent a year and fast gaining market share.

Mr Pang's business, however, could have run into trouble as labour costs rose in Hong Kong. Nevertheless, in the same way that Chinese-American connections helped him launch the company, mainland Chinese links were to enable him to cut costs dramatically.

Lafe set up a factory there in 1984 and currently employs 1,000 workers in China, as compared to 1,600 in Hong Kong. The plant began differently from most started by Hong Kong companies. It first recruited 15 local people from 600 applicants and then took them to Hong Kong for training.

They now form the basis of the managerial staff in an effort to avoid friction between local and Hong Kong Chinese. Lafe sends no supervisory staff from Hong Kong but only technical engineers on a rotating basis.

Lafe pays the Chinese authorities about HK$ 500 a worker per month (including various local charges) as against monthly wages of about HK$ 3,800 in Hong Kong.

Mr Pang says that "eventually we hope to be the leading supplier of computer magnetic heads in the world."

Apart from monolithic and composite heads for floppy and hard disk drives, Lafe has also begun making thin film heads for high capacity data storage.

In addition, the company is expanding its product range by using surface mounted technology to assemble printed circuit boards in China. This allows components to be fitted directly onto the boards through a computer-controlled automatic process, rather than soldering them on through holes.

Though Lafe will be shifting most of its manufacturing to China, it will retain its Hong Kong base as a technical and design centre, and to ensure the quality of its products.

And Mr Pang has no fears that China's resumption of sovereignty over Hong Kong in 1997 will cast a cloud over the business climate. "I regard it as nothing but a symbolic year," he says cheerfully.

Continued from previous page

road to industrialisation. They had also seen and learnt from Japanese methods.

In the case of Korea, the humiliation of Japanese rule and the devastation of the war had also brought to the fore what Dr Hong Wontack, Professor of International Economics at Seoul National University, calls those "animal" qualities that represent the strength of contemporary Korea. Among these he cites: "aggressiveness, an inclination to take (even the all or nothing type of) risks, freedom from the self-imposed restraints of convention, a frontier spirit, and so on."

The war coupled with the communist revolution in China, also had another consequence that was to leave a strong imprint on Asia's future. It resulted in a massive diaspora of the Chinese population. Hong Kong benefited from the Shanghai entrepreneurs bringing their capital and often their machinery to lay the base of the territory's textile industry. Taiwan drew the best of the bureaucrats from Chiang's government on the mainland. The speculator's and fortune seekers who had helped ruin his regime turned elsewhere believing him a lost cause.

But many of the Chinese fled to the US thus swelling the American-Chinese community and eventually the number of Chinese taking teaching posts in American universities or senior positions in the US semiconductor industry and Silicon Valley.

When the Taiwanese were to turn in this direction as their own electronics industry gathered momentum, they were to find – as the Koreans equally found from their community in the US – an invaluable pool of ideas and talent.

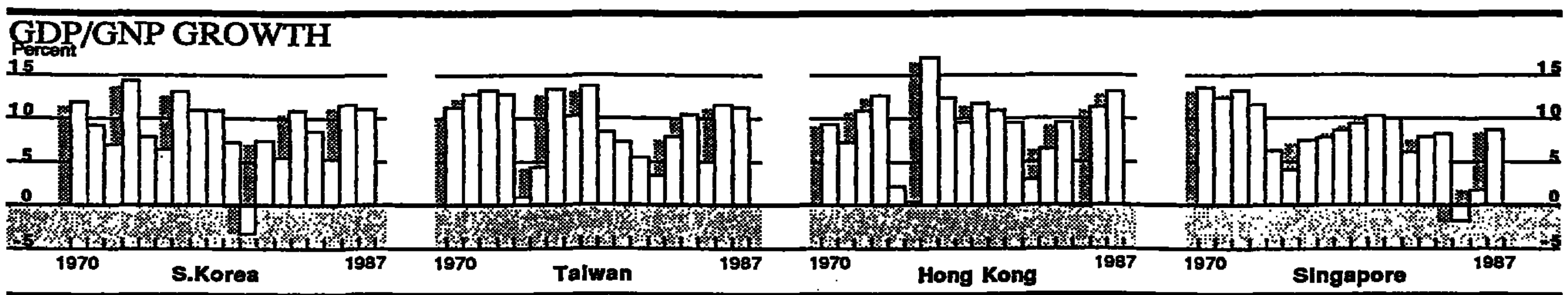
AID. Over the long run the divisions of the Cold War were damaging to Asia, producing wars in Korea and Vietnam, turning China inwards, and limiting intra-regional trade and investment. But there were compensations.

The Cold War had the effect of releasing Japan from most of the constraints imposed by the Allies on the rebuilding of its economy. Korea and Taiwan became recipients in the 1950s of more US aid per head of population than almost any other developing country. In the 1960s, they – like Hong Kong and Thailand – benefited from being supply bases for the US forces in Vietnam.

The growth of US influence also opened the door to US markets. Before the war, trade had been largely intra-regional reflecting the dictates of Japan's closely integrated empire. After the war, and particularly with the Western embargo on trade with Communist China, the major market for the Pacific Rim became the US.

EXPORT-LED GROWTH. The economic turning points in East Asia were the decisions, taken first by Taiwan and then by Korea and Singapore in the 1950s and 1960s, to concentrate on growth through the export of manufactured goods. Hong Kong had already been pushed in this direction when its entrepot trade with China came to an abrupt halt after the West imposed an embargo on China when it entered the Korean war in support of the North.

The switch to export-led growth may seem self evident today but at the time it was something of a dramatic departure. Development economics had been heavily influenced by Raul Prebisch, the Latin American scholar, who argued that developing countries should reduce their exposure to trade with industrialised nations.



His thesis was that in a free-trading system developing nations were the losers because the prices of the agricultural goods they mostly exported fluctuated wildly in the short term, and in the long term tended to decline. By contrast the cost of the manufactured goods that they needed to import from the industrialised world rose in real terms.

Prebisch, with others, thus supported a policy of import substitution under which governments diversified their economies by manufacturing what they had previously imported. They would thus obtain a broader industrial base, a wider range of skills and fairer income distribution. Prebisch advised that developing countries should protect infant industries in the initial stage.

Export-led growth departed from conventional wisdom

Import substitution policies had been adopted by Argentina, Brazil and Mexico in Latin America and, most noticeably in Asia, by India. Not fully appreciated at the time was that such policies also pushed up domestic costs, restricted the inflow of technology, diminished the pressure on companies to improve efficiency and drew the state into ever more costly financial of industrial projects intended to deepen the industrial structure.

Korea, Taiwan and Singapore (then part of the Malayan Federation) had embarked on import substitution policies. But they were running up against the difficulties of limited domestic markets and increasing investment outlays. At the same time Japan was already demonstrating that there was a world market for cheap consumer goods such as textiles, plastic toys and radios. The market-oriented American advisers who had accompanied US aid were strongly in favour of a policy change.

In the case of both Korea and Taiwan, however, the decisive factor was that they were economies on a war footing. Their military leaderships feared fresh communist attacks. They were also uncertain whether they could count on the US to supply the weapons they wanted.

Export led growth was the only chance of earning the foreign exchange that would guarantee them independence and security. "The whole emphasis of government was on the earning and saving of foreign exchange," recalls Mr Tsui Tso-kan, now vice-chairman of Taiwan's Council for Economic Planning and Development (CEPD).

An outward oriented policy means seeking to make best use of a comparative advantage – in the case of the four an abundance of cheap labour – through exploiting world markets. Wages thus need to be below those of competitor countries or productivity to be higher.

It also means giving companies at least the same incentives to produce for export (where the customer is distant and unknown) as for the domestic market (where the customer is known). The major incentives involve more favourable tax treatment for export industries and the management of the exchange rate in a way that gives exporters a competitive advantage in foreign markets.

Classical economists refer to the whole package as "getting the prices right." The gains from such an approach are that it integrates an economy into the world trading system, thus providing industry with a global rather than a domestic market: it encourages economies of scale through higher volume production: it promotes efficiency through international competition: and it encourages an inflow of foreign technology.

Taiwan thus embarked on an export-oriented programme in 1958 with an effective devaluation through abolishing the system of multiple exchange rates. It introduced tax incentives for the export sector, made access to borrowing easier and waived duties on imported materials used in goods for export. In 1965 it established the first Export Processing Zone at Kaohsiung in the south of the island, intended to attract foreign investors through an attractive package of tax and infrastructural support.

Korea likewise devalued the won by 100 per cent in 1964 to give its exporters a competitive advantage. But the Government went far further than Taiwan in supporting the export sector with tax and financial incentives.

President Park Chung Hee initiated a system of export promotion councils, with export targets set for industries and companies, and with awards for export achievement. Banks used export performance as a criterion for lending to companies.

In Singapore, the break up of the merger with Malaya in 1965 forced a switch from the largely import substitution policies that had been in force. Measures introduced in 1967/68 offered fresh incentives to foreign investors while placing tighter curbs on labour.

THE ROLE OF GOVERNMENT. The great debate among economists and political scientists in explaining East Asia's success is whether market-oriented policies were sufficient in themselves or whether government intervention in support of industry has also been a decisive factor.

The debate has had a political dimension because some academics and policy makers have argued that other developing countries – and even Europe and the US – should resort to more interventionist policies to catch up with the newly industrialised countries (NICs) and Japan.

Professor Chalmers Johnson, the US specialist on East Asia, says that the "Japanese, Koreans and Taiwanese have put together the political economy of capitalism in ways unprecedented in the West."

Among the major elements he picks out are: "soft-authoritarian" regimes that have assured political stability and given administrative elites the freedom to determine economic policy independent of the pressures of different interest groups; "co-operation between public and private sectors under the overall guidance of a policy planning agency"; and the fact that when governments have intervened in support of industry, it has been to reinforce market trends.

Robert Wade, a British economist who has also specialised in East Asia, argues that the governments of Japan, Taiwan and South Korea have all "actively fostered the development of many new industries, and successfully so, in the sense that many of those industries have become internationally competitive." Among the instruments they have used he highlights: financial systems that leave companies more dependent on borrowed funds than equity capital and thus more open to government leverage; tariffs and non-tariff controls; and selective intervention in support of particular companies and sectors.

Section four of this report will look more closely at the role of government. But what is clear is that East Asian governments are becoming less authoritarian and have less faith in industrial intervention than they did in the 1970s. Attempts then by Korea and Singapore to "pick winners" proved costly mistakes in terms of excess capacity, a loss of competitiveness and a downturn in growth.

ENTREPRENEURS. East Asia started the post-war years without any strong entrepreneurial tradition. This makes the emergence of a cluster of world-class businessmen – Mr Chung Ju-yong of Hyundai, Mr Lee Byung-chul of Samsung or Mr Stanley Shih of the Taiwanese group Multitech – the more remarkable.

Corporate size and structure differs widely between Korea, Singapore, Hong Kong and Taiwan. But companies get the bulk of their export business from the same type of operation which has greatly expanded with the growth of global manufacturing.

They produce to the design and specifications of a foreign purchaser which then retails the products under its own brand label – an arrangement that is often called original equipment manufacturing (OEM). This activity can cover goods from textiles, shoes, tennis rackets, to bicycles, TVs, video cassette recorders (VCRs), electronic components, hand-held tools and cars.

The foreign purchasers might be US retail stores, or multinationals like IBM, Thomson of France, and General Motors. East Asian industry has prospered from the increasing number of US, European and now Japanese companies shifting their production offshore to lower-cost countries.

Profits on OEM manufacturing are slim because the foreign purchaser absorbs the design, development and distribution margins. Competition among manufacturers is also severe because buyers can switch easily to alternative suppliers, depending on cost or currency differences. Hence the pressure on manufacturers is continually to improve their price and quality and to move up-market.

Korean electronics groups like Samsung, Goldstar and Daewoo are expanding their worldwide sales with their own brand names. But even in the case of Samsung Electronics – the largest of the Korean electronics manufacturers – OEM work still accounts for about 60 per cent of sales.

Hyundai, the car manufacturer, relies almost entirely on its name in marketing its Pony and Excel cars. But the larger Taiwanese companies like Tatung, Sampo and Teco have had much less success in developing their own brand names.

Notwithstanding this broadly similar approach to manufacturing, there are large differences in the way companies are organised.

Korea's private sector is dominated by the *chaebol* or large conglomerates. The ten largest of these account for about 75 per cent of the country's manufacturing output. More than 10 are listed in Fortune's list of the 500 largest non-US industrial companies.

The size of the conglomerates and their appetite to get into promising new activities means that it is difficult for small companies to flourish.

The *chaebol*, like the Japanese *zaibatsu* in earlier times, take the risk of building up capacity to gain market share without worrying too much about immediate returns or shareholders dividends.

Hong Kong's manufacturers tend to be small and family-owned. Lacking the large capacity of the Korean companies, their strength lies in the speed with which they can respond to changes in fashion or demand (see the accompanying article on Mr Clifford Pang).

Taiwan's corporate structure lies somewhere between that of Korea and Hong Kong. It has some sizable companies like Formosa Plastics, Tatung and Sampo. Many of these older firms got started under the Japanese occupation. By contrast many of the new computer or computer peripheral companies like Mitac or Microtek sprung from Taiwan's American-Chinese connection.

Nonetheless the bulk of Taiwanese companies are small. Some 67,000 of them account for 55 per cent of manufacturing output.

LABOUR. For a long time the most common Western explanation of the NICs' success was that repressive regimes maintained a competitive advantage by holding down wages and banning strikes and trades union activity. This is part of the story, but getting less so.

Confucian culture imparted the value of hard work

Trades unions are mostly ineffective. Korea's labour legislation is based on the Confucian premise that there is no conflict between management and employees. Until a minor stoppage last year, Singapore had not had a strike in nine years.

But repression alone does not explain East Asia's workaholic drive. Korea's average working week has risen steadily from 50 hours in 1975 to a current level of 54, because exports have been growing fast. Last year's strikes in Korea were over conditions of work and pay. Labour leaders were not generally seeking a shorter working week.

Resentment of the Japanese occupation and the devastation of the war years seem to have been a factor driving Koreans and Taiwanese to work harder. Factories recruited labour from the land and thus benefited from a first generation peasant tenacity to stick to the job.

The education system and Confucian culture implanted the values of hard work.

SAVINGS. East Asia has thus worked harder. It has also saved more which enabled it to finance its industrial expansion. Gross savings as a percentage of GDP for the four averaged a staggering 33 per cent over the period 1980 to 1986, half again that of the OECD area and more than that of Japan.

Household savings have been high to finance retirement, medical care housing and schooling, for which the state makes little provision. With fast rising incomes, families have also tended to underestimate what they earn, thus saving more. Governments have given them incentives to do so by maintaining real interest rates at a high level.

In the case of Korea and Taiwan they have also discouraged workers from spending by holding down consumer imports and preventing banks from developing consumer credit financing.

In Singapore, the Government levies a large proportion of employees' incomes – currently 35 per cent – which is then placed in a largely blocked savings account with the government-owned Central Provident Fund.

But it is not only households that have saved. Governments like Taiwan or Singapore have regularly run up substantial budget surpluses while corporations have put away profits into reserves rather than distributing them as dividends.

The exception to this fiscal prudence was Korea which in the 1970s, like Latin America, supplemented domestic savings with foreign loans – thus expanding its external debt to a peak of $47bn in 1986. Korean dislike of this dependency is one reason why Koreans have been pre-paying the debt through accumulated current account surpluses.

In both Korea and Taiwan, domestic savings have been channelled directly into industry through what have been until recently state-owned and controlled banking systems. In Singapore, by contrast, the savings have been used to finance both housing and infrastructure projects.

FOREIGN INVESTMENT. Singapore has been the only state where foreign investment plays a major role in the economy. In 1985, multinationals accounted for 70 per cent of manufacturing output and 82 per cent of exports.

The emphasis on foreign investment goes back to independence in 1965, in the wake of the break up of the merger with Malaya. Mr Lee Kuan Yew wanted rapid industrialisation to absorb the workforce. The local Chinese and Indian business community had more experience in trade. Mr Lee thus turned to multinationals, offering them tax incentives, clean government, and well equipped facilities to use Singapore as a manufacturing platform.

Elsewhere, the textiles, footwear, and light goods industries, on which the NICs first concentrated, were local initiatives. Korea and Taiwan did not have the size of domestic market to attract foreign investment in the way Latin American countries could. Korea in any case imposed tight restrictions on foreign investors.

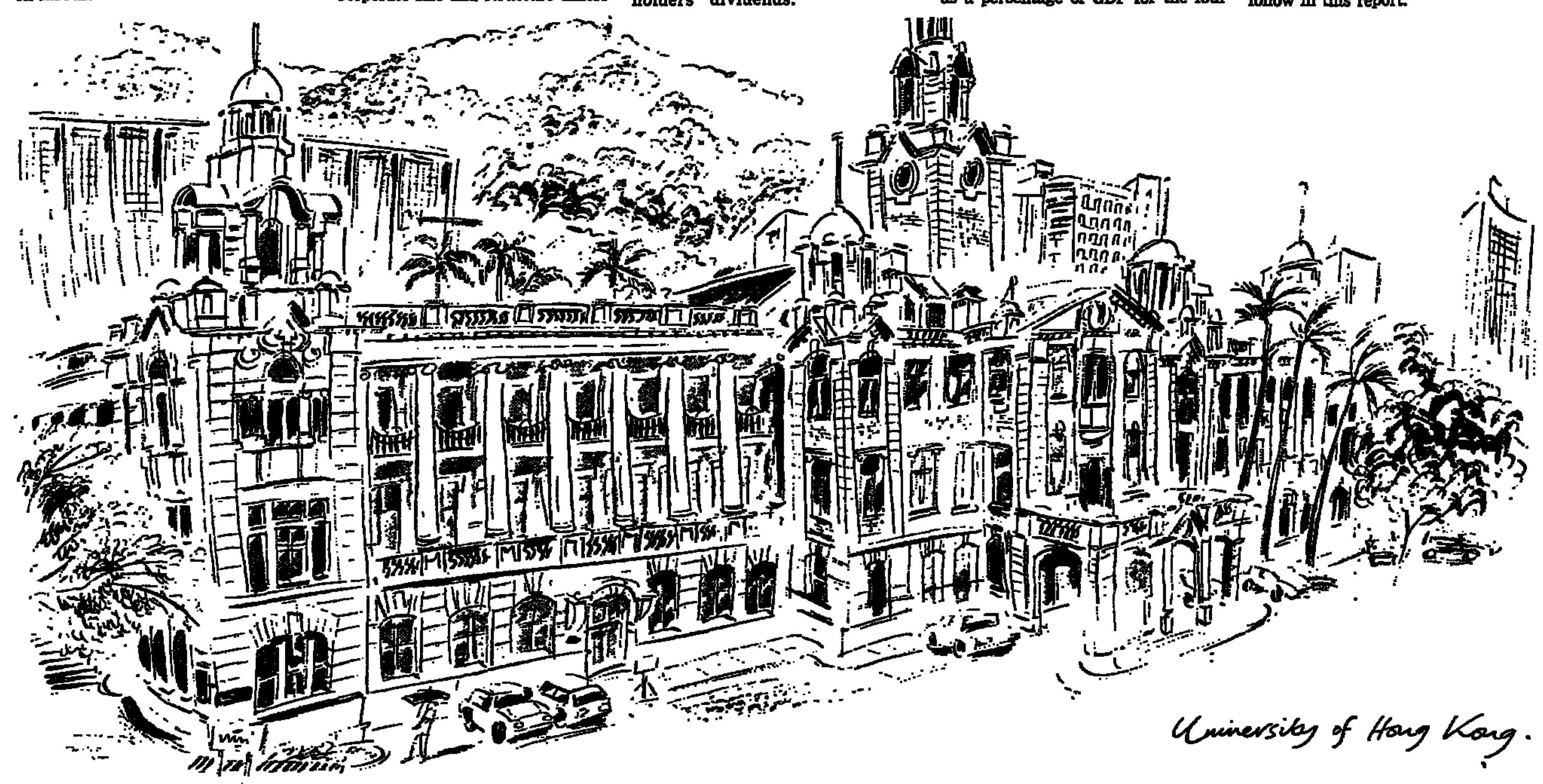
Both obtained far more foreign capital through borrowing than through direct equity investment. Between 1975 and 1984, Korea only obtained $433m in net equity investments besides the $21.3bn it got in net long-term borrowings.

Both education and the transfer of technology figure large in any account of the NICs' success, and are the subjects of two sections which follow in this report.

EDUCATION

Creativity replaces learning by rote

From Japan to Korea and Singapore, educators are talking a similar language that has its roots in Western liberal values



PROBABLY the greatest changes taking place in East Asia are in the education system.

They are slow to mature and they do not attract a great deal of public attention. But they are important for two reasons.

The changes mark the passage from societies where the emphasis has been on factory discipline and on mastering certain simple production line operations, to ones where the priority is on engineering skills and innovation.

They will also make it more difficult for there to be any return to authoritarian regimes, from ones that are increasingly democratic and responsive to public opinion.

From Japan to South Korea and Singapore, educators are talking a similar language that has its roots in Western liberalism. The emphasis is no longer on group activities, conformity and learning by rote, but on individual inquisitiveness and creativity.

Thus in Korea, Mr Chun Won Sik, Professor of Education at Seoul National University and a member of the recent presidential commission on education, says: "One of the drastic changes that we are promoting is the importance of individual excellence rather than group performance. We have to develop the creativity needed in the future."

Teachers, as he sees it, need to break away from traditional methods of making students memorise and repeat texts, and instead get them thinking about and discussing subjects.

The Korean commission has been working closely with a similar Japanese body, equally inspired by the belief that Japanese education is too conformist for the demands of an increasingly research – and technology – based society.

In Taiwan, Dr Kuo Wei-fan, the Minister of Education, says that classroom teaching is much too heavily based on memorisation and factual knowledge. He blames this on the pressures of an examination system which turns many schools into "education factories."

"The problem for us, as for Japan, is that we are too exam oriented. Teaching is therefore geared towards the highly competitive exams to get into high school and university," he says. The system is now being modified towards assessing students more on their overall school performance.

In Singapore, one of the striking recommendations of the government appointed committee set up under Brigadier-General Lee Hsien-loong (B.G.Lee), the Minister for Trade and Industry and the Prime Minister's son, was the need to encourage "more creative and flexible skills through broad based education."

The committee declared that "to create or acquire for ourselves a niche in the global economy of the 1990s, we will need a thinking and creative population."

Singapore has thus embarked on a controversial programme to achieve more "excellence" in education by creating new, independent schools on the British or American model. B.G. Lee says that what are needed are "good principals, good teachers who take the trouble to bring out the best in pupils, and an absence of new-fangled ideas."

East Asia can afford this concern with quality because, by and large, it has been so successful in providing basic education for a high proportion of children. Korea now has about 85 per cent of the 17 to 18 age group staying on in secondary education, which is less than Japan but more than Britain (46 per cent) and France (75 per cent).

In Taiwan, the proportion is 80 per cent but will rise to 90 per cent over the coming years. That means that almost every industrial worker will have had 12 years of education before taking up a job.

Meanwhile, in Korea over 30 per cent of an age group goes on to higher education, giving the country a current university or post-secondary population of over 1m. Taiwan's proportion of any age group going on to higher education is just under 30 per cent, and 85,000 students graduate from university or technical college each year. These include 11,000 engineers with a BSc degree.

East Asia can also afford to pay attention to quality because it now has the resources to do so. Korea is planning to increase government expenditure on education from 3.3 per cent of gross national product (GNP) to 4.7 per cent over the next 14 years.

Families also spend heavily on schooling and university education, so the real boost to education will be larger.

Taiwan is also increasing its education budget – by 15 per cent this year – because, for a government under international pressure to invest more at home, schools and universities are one area where funds can be quickly disbursed.

Both Korea and Taiwan have another advantage as well. They can draw on an increasingly large pool of talented and qualified people who have done their studies abroad, mostly in the US. There are some 30,000 Taiwanese with MA degrees living in America. Many of them are working in the electronics and engineering fields that Taiwan wants to develop.

In the 1970s, when Taiwan's future appeared less certain, this "brain drain" seemed an irreparable loss to the country. But now Taiwan is reaping the advantage. For not only are more of these people returning home to act as consultants, to create their own businesses, or to teach in universities (some for only short periods), they are also bringing with them their contacts in the US electronics industry and Silicon Valley.

Singapore and Hong Kong, the two countries that took the wrong decision and failed to expand their education system sufficiently in the 1960s and 1970s, now regret their move and are trying to catch up. Mr Lee Kuan Yew, who had faced unemployment, union militancy and intellectual left-wing hostility in his early years in power, feared that an open-ended expansion of the education system carried the risk of creating an army of educated unemployed. Singapore thus made entry to secondary school and university highly selective. Even today, primary schooling is not compulsory.

The result, in the words of B.G. Lee's Economic Committee, was that in 1979 60 per cent of the country's workforce had "only primary education or no education." A crash programme since then has much improved the situation. Over the last five to six years the number of entrants to university has doubled and polytechnic intake has grown threefold. This year the number of new university graduates will climb above the 5,000 mark.

But even so Singapore has only 6 per cent of the right age group in university, not counting the polytechnics, and needs to broaden its secondary education base before it can increase this number substantially.

The massive post-war expansion in schooling in North East Asia took place at breakneck speed and from wafer thin foundations. In the Confucian cultures of both Korea and Taiwan, education had been traditionally confined to an elite and had been based on memorising and repeating the classics.

Opportunities under the Japanese occupation had been restricted because Japanese was the language enforced in schools and because the number of places available fell far short of the demand. At Seoul University before the war there was an annual intake of 500 students. But only 75 of these places were for Korean nationals.

Freedom from foreign domination thus released a head of steam. Though education had traditionally been the reserve of a chosen few, it had also been highly valued. An uneducated man was considered barely human.

The upheavals of the Second World War had removed social distinctions based on class. Education thus became the way of climbing up the ladder and of allowing the poorest farmer's son dreams of becoming a government minister.

In national terms, education was also the driving force that enabled the Koreans and Taiwanese to make good the humiliation of defeat, and thus reduce the gap with industrialised Japan, or offset the advantages that mainland China had through its size.

Professor Lee Hong-woo, of Seoul National University, remembers that the driving force for education was so great that it "seemed that every day 10 or 20 schools were being put up. Sometimes there were no buildings, so classrooms were established wherever a place could be found." Within six years enrollment in primary school had reached 98 per cent.

Expedients were evolved to teach large numbers of pupils. Korea developed what came to be called the mastery system in which teachers drew on the help of their quicker children to help the others master the lesson. Singapore resorted to a double shift system in schools, which is only now being phased out.

But the real impetus came from the determination of parents who scraped and saved so that their children could remain at school. Even today families accept far more responsibility for a child's education than is the case in the West. Most mothers give up their jobs on marriage so as to devote themselves full time to their children. They follow their child's schooling more closely than would be the case in Europe, and bully them more over their homework.

Continued over

Korea's democratic move away from academic elitism

ASK ANY senior technocrat in Seoul where he went to school, and the chances are he will tell you Kyonggi High School. Before the Korean Civil War and for a good 20 years afterwards, it was where the elite sent their children in a country where social position was largely determined by education.

But Kyonggi, which still dominates the wealthy Kangnam suburb across the Han river from the centre of Seoul, had its prestige undermined by one of those abrupt changes that tell volumes about the type of society South Korea wants to achieve and its methods of going about it. In the mid-1970s, the Government abolished selection for all levels of secondary education and decreed that admission should be on the basis of geographical zoning.

Mr Kim In-suk, who has been Principal since 1980, has no regrets about the change in system. With thick glasses, a dark suit and an improbable pair of gym shoes, he administers the school from an ornately furnished study in which hangs the President's portrait and souvenirs of the school's past.

He says that students are now brought up much more democratically than before, when they took away with them a sense of superiority that made it much more difficult for them to mix with other people. A former maths teacher at the school, he nonetheless says that it was easier to teach in classes that had been selected and streamed.

Along with the shift to comprehensive education in the 1970s, the Government took other measures. The Japanese system of supplementary classes – "juku" schools as they are known in Japan, or "hakwon" in Korea, which provide students with extra tuition to help them get through exams – was abolished. Mr Kim says that some students neglected regular classes in favour of private "crammers" while poorer parents found the financial burden of private tuition was too much for them.

More recently school uniform was abolished so that students now turn

Discipline is more difficult to enforce

up, American style, in jeans and open neck shirts. Mr Kim supported the move as encouraging students to be more independent. But he says that it has meant that discipline is more difficult to enforce and that the schools worst problem now is an increase in smoking: students are punished by a three to five-day suspension the first time they are caught and by expulsion if they persist.

Kyonggi is a senior high school with over 3,000 pupils aged from 16 to 19. A notice in the main hallway tells you that 35 per cent of them are Christian – reflecting the large increase in the number of Christians over the last 20 years – while 30 per cent are Buddhists.

With admission based on a neighbourhood system, some 45 per cent of the students fail to get to university. But because Kyonggi is situated in a wealthy suburb, and probably because a good many parents still use influence to get their children a place in the school, it has by no means lost all its past academic glory.

It had the best record of any school last year for admissions to the country's academic institutions: 65 students went to Seoul National University, 85 to Yonsei and 50 to Korea University.

The university exam system puts a premium on factual knowledge and memorising, rather that individual inquiry. But Mr Kim is trying to encourage more practical work in science and more discussion and debate in the classroom. He is also trying to get students to be more self reliant and to work more on their own, in contrast to the traditional emphasis of giving group loyalty priority over self interest.

Changes in the university examination system allowing institutions more freedom in determining their entrance requirements are reinforcing this trend.

But the difficulty in carrying through a more individual approach to teaching is that at Kyonggi classes are huge, with 60 students in each on average.

The school has an active parents association which helps finance the purchase of equipment, and Mr Kim says he is also regularly phoned by parents anxious about their childrens' progress or protesting at some action of the school. In Korean family life, it is above all the mother who is responsible for a child's education.

Students in their final years are expected to do about four or five hours a of homework a night. But when exams approach, Mr Kim says, they will work up to one or two o'clock in the morning and then get up and start work again at six.

ROLE OF GOVERNMENT

Stepping back from centre stage

There has been less intervention in industry, and private sector businesses are being ceded more power over their development

GOVERNMENTS have long been credited with having a major hand in East Asia's economic success. But they are now anxious to take a lower profile.

They are less confident than they were in the 1970s of the wisdom of their judgment, when compared to that of business, in taking investment decisions. They intervene less directly in industry. They are ceding power in reducing (albeit at times unwillingly) tariffs, non-tariff barriers and industrial licences. They are also reducing the size of the public sector by a programme of privatisation that is still modest but will gather pace.

Governments also no longer have the same free hand that they enjoyed when designing economic policies under the more authoritarian regimes in the 1970s. They are increasingly subject to the clamorous pressures of domestic lobby groups, from farmers to trades unions, consumers, environmentalists, industrial associations and political opponents.

In sharp contrast to his autocratic predecessors, who could afford to ignore the National Assembly, President Roh Tae Woo of South Korea needs to consult opposition parties over legislation after his Democratic Justice Party lost its overall Parliamentary majority in last April's elections.

In Taiwan, President Lee Teng-hui has abandoned the patriarchal style of the Chiang family that preceded him. Even in Singapore, where government long claimed to know best, the 1985 recession jolted confidence in its judgment so that the younger generation of leaders portray themselves as more ready to renew a dialogue which takes into account public opinion.

All this means that, in terms of models of economic development, the East Asian experience becomes more difficult to classify. The description by Chalmers Johnson, the US specialist on Asia, of "soft authoritarian" states is outdated. But nor is East Asia, with the exception of Hong Kong, the model of market economics that some classical economists have suggested.

The frontiers between what government does and what is left to business are nonetheless shifting in favour of the private sector. Thus in Singapore and Korea, among the most *dirigiste* of East Asian states, governments take a more modest view of their role and are more apprehensive of dictating to business. Mr Lee Kuan Yew in Singapore once said: "This is how a country succeeds. You pick winners. You concentrate on those items, on those skills, on those products, which will sweep the market."

His son Brigadier-General Lee Hsien-loong (B.G.Lee), Minister for Trade and Industry asks: "Do we want to second guess the market?" as the Singapore Government has done in the past in investing heavily in petrochemicals and shipbuilding. "And are we sure, amid conflicting market signals, that our second guess will be right?"

In Korea Dr Park Yung-chul, formerly economic adviser to President Chun Doo Hwan and head of the Korean Development Institute speaks a similar language when he says: "We don't want to give any industry the wrong idea that the Government thinks that some are going to do better than others in the future. We are not going to get involved in saying which are profitable, let alone investing in them. We are not going to devise any industrial policy that smacks of targeting."

Dr Hyun Oh Seok, Director of the Economic Policy Division in the Economic Planning Board, likewise makes the distinction between the role of government in the 1960s and 1970s as an "initiator of growth" and its role now "of co-ordinating the interests of different groups."

Technocrats' statements should be taken with a pinch of salt – particularly when they come from what has long been the liberal wing of government, and, when at a time of trade friction, they cannot afford to give the impression that the Government confers on Korean firms an unfair competitive advantage.

But an astute outside observer like Allen Plumb, chairman of the Seoul branch of Standard Chartered Bank, says that "bureaucrats are less certain that they know more than industry and they are less dictatorial." He adds that planning is less formal and "we are getting away from the rigid non-practical control," practiced by government in the past.

The trend is not uniform. Hong Kong, always thought of as a staunch believer in laissez-faire, now talks of a shift in policy. It fears its electronics industry has clung too long to simple assembly work and easy-to-make products such as watches, calculators and games, and is thus slipping technologically behind Korea, Taiwan and Singapore.

It has therefore begun a support a programme to give local manufacturers more access to microchip design and to encourage the adoption of sur-

Lee Kuan Yew: A swing away from policy of "picking winners"

face mounted technology, which enables components to be fitted onto a printed board through a computer-controlled process, rather than soldering them on through plated holes.

Equally, Taiwan – which feared that the Koreans were stealing an advance in areas such as memory chips and laser technology – has been backing its electronics industry in the move into integrated circuit design, computers and data processing.

But even if mid-ranking officials in the Council for Economic Planning and Development, the Government planning and budget agency, speak of such government support as being along the lines that the Japanese Ministry of International Trade and Industry extends to industry in Japan, the head of the department speaks in very different terms. Dr Yang Shih-chien (George Yang) says that he does not believe in support for specific products or sectors, and that within two years the Government will give up the practice of providing specific incentives for so called "strategic" items.

But the shift should not be over-dramatised. Korea, Taiwan and Singapore are all "developmental states" in the sense of their commitment to high economic growth and continuing industrial upgrading.

Dr Karl Moskowitz, a Korean scholar and head of the consultancy group Korea Strategic Associates, sees the strength of Korea as its ability to mobilise resources – with government and industry pulling together – behind goals judged to be nationally important. It is this qual-

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Learning by heart gives way to a new mood of inquisitiveness

A lecturer at Pusan University in southern Korea maintains that mothers study as hard as their children to help get them into university.

The provision of schooling for all had a tremendous impact on the moulding of post-war society. It taught the importance of hard work because of the emphasis laid, as in Japan, on diligence and effort.

"Effort is the most important factor in achievement," says Professor Chun. The education system also instills the importance of competition. "The lesson given to our young people is that if you want a career, you must pass examinations," says Dr Kuo.

These are values that the Chinese and Korean communities carried across with them to the US where Asian students have established a reputation for getting the best academic results. Asian students thus accounted for a staggering 25 per cent of the freshman intake at Berkeley University last year, even though as a race they represent only 6 per cent of California's population. In the engineering faculty, the proportion rose as high as 40 per cent.

"They are conditioned by family environment and pressures to study their tails off and excel," says Marvin Baron, the foreign student adviser at Berkeley. He likens them to the highly motivated, hard working Jewish students of an earlier generation of American immigrants. In 1985, students from Taiwan gained 815 doctorates in the US – more than any other nationality.

In East Asia, the emphasis on schooling has also laid the basis for developing the skilled workforce that has become the region's major asset.

Korea and Taiwan took different routes to achieving this end. By the mid-1960s Korea's military regime had decided that selective entry to secondary education was both socially divisive and left a wide gap between a handful of elitist schools and a large number of second-rate institutions to which no parents wanted their children to go.

"The top 10 per cent of children had pride in their school," says Professor Lee, "but the rest refused to carry their cap in public."

President Park Chung Hee thus decided on a sweeping reform that transformed first middle schools (age 12-15) and then high schools (15-18) into comprehensive schools, with intakes determined on a neighbourhood basis. At the same time the Government abolished the *juku*, or crammer schools, in which, as in Japan, mainly middle class parents sent their children for additional tuition after regular school hours.

The new system created an uproar among parents at Seoul's famous schools like Kyonggi (see accompanying article) and among teachers. Educational standards fell in the short term. But two gains were that Korea had a more democratic education system in a country which gives weight to equality of opportunity, and that the schools provided a general education for all.

Taiwan, in contrast, maintained a selective system that placed children in secondary schools according to their scores in competitive examinations, and which provided academic education for the top 30 per cent and vocational training for the rest. It is this system that creates the enormous strains on children – above all on entry into high school at 15 years of age and at 18 with university entrance.

"Everybody hates the joint examination (at 15)," says Chang Pei-chi, the Director of Manpower Planning in the Taiwanese equivalent of a Planning Ministry, "but one advantage is that everybody has the same opportunity."

The main opposition to changing the system (proposals are now under review) stems from parents who believe that the examination's computer-marked, multi-answer questions provide the fairest test of a child's ability irrespective of social background and school. Educationists are pressing for reform because of the damaging stranglehold it has on classroom teaching.

Singapore, which was much influenced by the British grammar school tradition, is more selective than Taiwan. Streaming, or the grouping of children into classes according to ability, begins in primary school.

The third area where the education system has had an impact in moulding society has been as an instrument of political propaganda. Through moral education courses that emphasised loyalty to country and respect for authority, Korean and Taiwanese children have been brought up to hate communism and to love the benign, protective rule of the regimes of Mr Chiang Kai-shek or Mr Park Chung Hee.

In Singapore, the school system has played a key role in nation building, welding the communities of Chinese, Indians and Malays, each of which had their separate language schools, into one society with English as the common language.

But the problems of mass education and the differing requirements of fast evolving technologies have imposed the need for change. Students in all three countries emerge from their years of schooling and university education with too little experience in handling ideas, in analysing and debating a problem, and in thinking creatively.

Their eyes have been fixed on their courses and they have little knowledge beyond what lies in textbooks. Even their teachers are depressingly frank on how boring they find the bulk of their students.

Large classes are one obvious reason for this. In Korea and Taiwan, teenage students preparing for university can find themselves in classes of 40 to 60 pupils.

"We did not have the chance to exchange ideas," says one Taiwanese student of his high school days. "It was not the teachers' fault. Some were willing to discuss. But there were too many students in the class."

Another factor is that text books are generally standardised and centrally distributed, thus leaving little initiative to be taken by the teacher. At the same time the examination system puts a premium on memorisation and repetition without testing other qualities such as imagination or logical thinking.

Government efforts to use the school system to buttress political ideology are also running up against the impatience of students increasingly tasting the power of more democratic politics and exposed to a much greater diversity of ideas.

A student from Taiwan National University, who prefers that his name not be mentioned, complains that "from the age of five or six we have to learn respect for Chiang Kai-shek and what a great leader he is. But we are not in the Kuomintang (the ruling KMT party). Why should we read about the party's work?"

At the same time the emphasis on putting national and family loyalty above all else seems increasingly anachronistic. Professor Nora Chiang, who now teaches at Taiwan University and is a prominent figure in the Taiwanese women's movement, remembers vividly a line from the school song that as a child she had to sing daily. It went: "for your family and your country: carry both on your shoulders." Even at that age she recalls thinking "and what about me?"

But the most intractable problems are in the universities. The rapid expansion of secondary education has far outpaced the growth of university places. In Korea, universities can only take one candidate in three, and in Taiwan last year 100,000 students applied for 30,000 places.

Most of the universities are badly overcrowded. They also fall into two distinct categories. There are national universities like Singapore, Seoul, Yonsei and National Taiwan, which are the equal of European or US universities. But beyond these there are a host of second-grade institutions (Singapore is an exception) often privately run with inadequate staffing levels and facilities. Inevitably the best institutions are the most sought after, while nobody really wants to go to the others.

It is the second tier institutions in Korea that have been the source of much of the student militancy, reflecting both the students' frustration at their situation and the radicalism on their campuses.

They are a stronghold of populist economic ideas for greater self sufficiency and less dependence on foreign imports. Mr Nam Duck Woo, the former Korean Prime Minister who confesses himself much worried by the breakdown of academic discipline on many campuses, says he believes that students who fail to get the required grades should be forced to drop out.

Reforms will take a long time to implement because education systems by their nature change slowly. But governments in East Asia are reaching broadly similar conclusions on the directions to take.

The movement is towards emphasising the qualities of enquiry, judgment and imagination; more autonomy for institutions, both schools and universities; more decentralisation; and a new balance in higher education that allows for both more job orientation and more research.

Within this framework, Korea is modifying its comprehensive schooling policy to create new schools for gifted children. One has already been built and others are on the way.

To ease the pressure on universities, children at the age of 16 are likely to be given the option between a liberal arts programme, leading to university, and more vocationally oriented courses leading to a technical institute and a degree.

Universities are being given more freedom over their selection policies. In the case of major institutions like Seoul National University, they will concentrate more on graduate teaching and research work, thus strengthening their links with Korea's research institutes.

Singapore is already experimenting with giving independent status to three state schools. The idea is that, with freedom to recruit the staff and pupils they want, and freedom to design their own programmes, they should become a model to other secondary schools. Like Korea, Singapore is also enhancing graduate and research work in its universities.

In Taiwan, Dr Kuo, the Education Minister, sees the trend towards more liberalism in education as part and parcel of the movement towards more liberalism in politics and economic management.

Recently the Government relaxed its nationwide controls on school uniform and the length of children's hair. That may seem a trivial move. But it says a lot about how the education system is evolving.

Where once the emphasis was on mastering simple production line operations, the priority now is on engineering skills and innovation

Rallying behind the flag and a better start in life

STUDENTS at Fu shung high school in central Taipei begin their school day at 7.40 am with a flag raising ceremony. They stand in rows on the school playing fields, with shoulders straight and hands behind their back as the Republic of China flag is slowly hauled up the mast.

"Our students are very loyal to their country," says Mr Huang Chen-chio, the Principal. Students absent from the ceremony more than 35 times in any one year are expelled.

Fu shung, with over 5,000 children, is ranked as the second best school in Taipei on the criterion of getting more students into university than all but one other of the capital's secondary schools. Some 75 per cent of the children at The Affiliated Senior High School of the National Taiwan Normal University, to give it its full title, gain admission to university, as compared with a national average of about 35 per cent and the 85 per cent achieved by its rival.

In Taiwan's fiercely competitive education system, where success in exams opens the doors to the best universities and afterwards to the best jobs, parents with the means move closer to the middle class area around Fu shung in order to give their children a better start in life.

Fu shung was founded about 50 years ago during the Japanese occupation of Taiwan. In the crowded centre of Taipei, it still has large grounds with its own soccer fields, basket ball pitches and a swimming pool. But its ageing gymnasium is a physical reminder of the Japanese and Confucian values that still influence the school's approach to education.

As in Japan, there is a strong emphasis on effort, diligence, hard work, acting as a group, being respectful to teachers and parents, and on loyalty to family and country. Children wear school uniform, though the national uniform in force until four years ago has now been dropped, along with the insistence that all children must wear their hair closely cropped.

Notwithstanding this intimidating list of virtues, however, Fu shung is no Dickensian establishment. Children treat the visit of a foreigner as a noisy occasion for laughing and relaxing.

They have to work much harder than in Europe. The school day begins at eight o'clock and ends at four, with a one hour break for lunch. But there is also school on Saturday morning from eight to 12 and to this already heavy workload a number of children also do further classes at "cramming classes" in the evening to help them catch up or to get through the vital exams that mark the passage to senior high school at the age of 15 or to university when they are 18.

The supplementary classes, run privately like the "juku" schools in Japan, last about three hours. On top of that a child preparing for senior high school exams at 15 would have further homework set during his regular school day. Thus, says Mr Huang, "some of the students stay up to midnight. The burden is very hard on them."

Fu shung has only a small junior school of 800 students and recruitment to it is on a neighbourhood basis. With six classes of 50 students each, the school has room for only 300 new entrants each year.

Mr Huang says that applications are several times that number. Those who do not get in are sent to private schools, which at the junior high school level have the reputation of being better staffed and of giving children more attention than the average state schools.

At the senior high school level, the best state schools are said to be far better than their private counterparts, attracting – like the French "lycees" – the best students and teachers.

Once children have gained admission to the junior school at the age of 12, they are put into mixed ability classes of about 50 pupils. The Government now accepts this is too high a figure and is attempting to bring down class sizes to 42 children.

From the moment they enter the school the main focus of their academic work is on preparing for the entrance exam to the senior high school.

About 70 per cent of the children at the junior school clear this crucial hurdle. Though children work in mixed ability classes, the brightest can jump a whole school year while those who find difficulty with the work are given additional classes during lunch breaks.

The curriculum is set by the state with the aim of providing a broad range of subjects, though the main emphasis is on Chinese, English, maths, history, geography, physics and chemistry.

However, because the high school exam is set on the basis of multiple choice questions to which children have to mark the correct answer, there is a strong premium on learning by heart.

All teachers think this is regrettable, and that more weight should be attached to developing imagination and individual expression, but they say that at the junior level they are prisoners of the examination system.

Parents are convinced that the computer-run, multiple choice exam is the fairest available and gives most chance to children from all family backgrounds to compete on equal terms.

With the state determining the curriculum, all schools have to include in their programme classes in what elsewhere would be termed "anti-communism". At Fu shung these take the form of two hours of classes a week on civic education where children learn to be good citizens, to be loyal to their country, respectful to their elders and to have good manners.

Admission to the senior school is rigidly selective on the basis of the exam taken by all pupils in Taipei. The brightest students generally choose Fu shung's main rival in academic achievement, Chien Kuo, which gains the highest number of admissions to university. Fu shung gets the second pick of the crop. In the same way as the two schools attract the best students, they also attract the best teachers.

Though classes are still organised on a mixed ability basis, they have already been pre-streamed. In addition children increasingly divide up into different classes after 15, depending on the options they have chosen.

A unique feature of Fu shung, and a major source of pride at the school, is that it has a separate music department for children with a gift for music. Already housed separately within the school, its facilities are being improved further with the construction of a new building.

The emphasis in the senior school is still on mastering and memorising the information set out in the text books because it is on knowledge of these facts that success in university entrance exams is decided. Teachers correspondingly give their lessons in large classrooms with questions and debate rare by US or European standards.

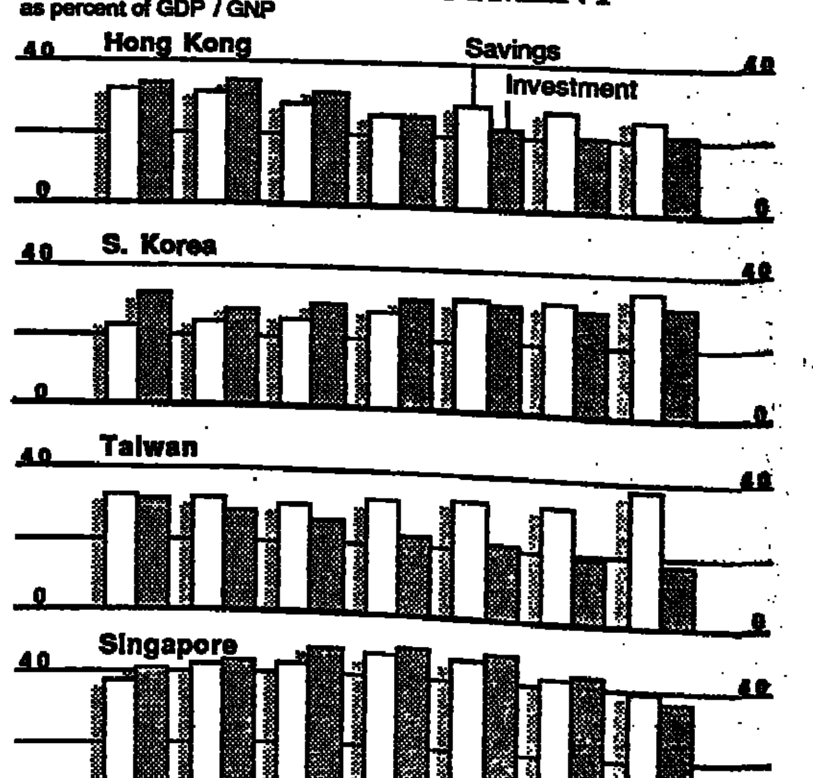
Mr Huang says, however, that increasing effort is being put on students finding out for themselves and developing interests beyond those in textbooks. He says an important feature of the school is its extra curricular activities.

Some 50 clubs have been set up and are run by the students, giving them a chance to develop individual responsibilities.

The school also has a large computer room with about 50 machines. Students start using these from the age of 16 and the school recently won first prize in a competition for writing computer software.

SAVINGS AND INVESTMENT

as percent of GDP / GNP



Source: OECD

Continued from previous page

ity that also enables Korea to overcome its periodic upheavals, such as the labor disputes in the summer of 1987.

In Korea, government, the major *chaebol* (conglomerates) and the industry associations form part of a tissue in which it is difficult to know where the centre of decision making lies. In Singapore, as well, the ruling elite is so small and the relations between government and industry so close that Mr Philip Yeo is both head of the Economic Development Board and chairman of Sheng-li, the state-owned holding company with stakes in the defence and electronics industries. (Imagine a British cabinet minister running British Aerospace at the same time.)

Both the Korea and Taiwan governments still exert influence over the private sector through their control – though on the decline – of the banking system and hence of a significant part of companies' borrowing needs.

Governments are also involved in industry's marketing policies through the growth of export restraint agreements and managed trade. Walk into Korea's new government complex at Kwachon, outside Seoul, and see the signs for the "Office of Fair Trade" in the Economic Planning Board and you realise that you are not in a pure market economy.

But the mistakes in Korea and Singapore, in particular, of government intervention in the 1970s have made administrations more wary of arguments that government support for specific sectors can provide an industry with long-term comparable advantage over its competitors. Both countries were lumbered with costly over capacity in the shipbuilding and chemical industries and both suffered a severe recession.

Governments have come to recognise their own weakness in assessing how market trends will move worldwide for different products, and to realise their centralised administrations are already overstrained.

In any case, the large Korean conglomerates such as Hyundai, Samsung and Goldstar have their own marketing and corporate planning departments which operate on a global scale and do not want to be under the wing of government.

The Korean export boom over the last two years in such electronics goods as video cassette recorders (VCRs) and microwave ovens was mostly due to the success of the conglomerates in exploiting opportunities opened up by the appreciation of the yen. They purchased the technology, installed the manufacturing capacity and found the markets.

Likewise it has been the conglomerates which have born the brunt of the costly risk in the development of Korea's semiconductor industry, in contrast to the experience of the 1970s when the *chaebol* played a back-up role to the Government in developing the metals and chemicals industries.

The major preoccupation of governments will thus increasingly be with macroeconomic policy – fiscal and monetary policy, and exchange rate management – and with public investment in infrastructure, training and research.

Their workload is also being increased by being drawn into areas of government in which some of them have little experience so far – environmental control, social welfare, consumer protection and housing.

Should this imply that governments are leaving industry to fend for itself, the rest of this section looks in more detail at where they intervene and how.

● Selective intervention in support of specific sectors or companies. More commonly known as "picking winners", this practice has been adopted at various times by Japan, France and Korea. Taiwan is the only East Asian state to own up to the practice. Mr Tsai Ta-kan, vice chairman of the Council for Economic Planning and Development says: "The Governor of the Central Bank is more liberal minded. He feels the Government cannot be as good as businessmen picking winners. More people feel the other way. Because of the small size of companies in Taiwan they are not as well informed as government in deciding what is best for them."

Government support, according to Mr Yu Chi-ming, director of the electronics division of the Industrial Development Bureau (IDB), extends to "encouraging industry to develop new products so that we can enter the market in the early stages of the product cycle."

This support is provided through "matching funds" put up by the IDB to help companies "make breakthroughs in new products. Recent examples include a 32-bit computer from Multitech, and chip sets for digital TV from Philips, the largest foreign concern in Taiwan but treated in this context as a domestic producer).

The scale of the funds remains small – NT$ 850m over five years and spread across 20 projects – with the annual budget on the decline judging by this year's allocation of NT$ 100m.

The Government is able to follow through development support, or indeed to back other projects, by taking a direct equity stake in a venture itself or by providing subsidised loans through the government-owned development bank, the Bank of Communications.

The most important case recently of a direct government participation was the taking of a 48.3 per cent stake in Taiwan Semiconductor Manufacturing Corp (TMSC), the state-of-the-art wafer fabrication facility intended to give a boost to integrated circuit design and provide local design houses with an in-country, high technology plant.

Subsidised loans are provided for 135 products on the list of so-called "strategic" products. This was initially drawn up after the second oil shock with a view to diversifying industry into less energy intensive areas such as information technology and electrical machinery.

Dr George Yang, the liberal head of the IDB, and now one of the most powerful influences on government policy, says: "According to my personal idea, we don't need that list. In future our incentive programme should be redirected away from incentives for specific products or sectors and towards a more general upgrading of industry." By that he means government should focus on providing help in areas like research and development (R&D), pollution control, manpower and management training. "You have to provide a good environment to upgrade industry," he says.

Korea went further than any other East Asia state in "picking winners" and targetted for development in the 1970s such industries as naphtha cracking, steel, metal products, shipbuilding, machinery and automobile production.

Conglomerates were individually assigned to particular sectors. Four-fifths of manufacturing investment between 1977 and 1979 went into the heavy and chemical industries, most of it financed through concessional loans.

The price was substantial over-capacity, and a recession precipitated largely by rising inflation and balance of payments difficulties.

Dr Il Sakong, Finance Minister, is adamant that such practices have been abandonned. He told an audience in the US last year: "Many here in the US mistakenly believe that Korea continues to 'target' strategic industries, providing subsidies and other financial benefits to specific sectors. Not so. We phased out industry-specific support, such as preferential *interest rates and other* industry-oriented facilities, and instead shifted to providing general support in manpower training, information and technical guidance."

More convincing than this bland declaration are the comments of Mr Kim Chulsu, deputy Minister for Trade and Industry. He says that the "bad experience we had in the 1970s in terms of government intervention" has made the administration more cautious. He points out as well that Korean companies are generally larger than their Taiwanese counterparts and thus able to invest more in R&D.

Nonetheless, if the amount of specific intervention is much less, most Koreans and foreigners are convinced that it continues. One pointer to this belief was the sharp rise in the share price of the Daewoo group after Mr Roh Tae Woo's election, on the assumption that it was close to the new administration and would benefit most from government patronage.

● Technology. Throughout East Asia the governments' major contribution to industry is increasingly channelled through R&D expenditure. This reflects industry's more sophisticated needs. It also provides a convenient way of helping the manufacturing sector that does not run into trade friction.

Mr Kim Mah-je, the former Korean deputy Prime Minister but still close to the country's economic establishment is quite open about it. "Because of foreign reaction, a much greater proportion (of credits for high technology such as semiconductors) goes to R&D instead of outright subsidies for specific functions," he says

As a proportion of GNP, Korean spending on R&D has more than doubled to 2.3 per cent in four years. (This includes the private sector's substantial contribution.)

In Taiwan the proportion is over 1 per cent with most of this coming from the Government.

Both Taiwan and Korea have large research organisations with such acronyms as ITRI, ERSO, KAIST, and KIMM. These have the dual role of *training engineers and transferring* core technology. The Taiwanese Industrial Technology Research Institute (ITRI) is, for instance, developing a new motorcycle engine controlled by a microprocessor to give better fuel consumption and lower pollution. This might seem an odd project for a government to get into but Taiwan has the highest motorcycle and scooter density per head of population of any country in the world.

KIMM is helping Samsung's Advanced Institute of Technology develop new turbo blades for aircraft engines, while KAIST is also involved on research into new semiconductor materials. Three of the major Korean groups (Samsung, Goldstar and Hyundai) are working with ETRI on developing the next generation of memory chips, the 4-megabit DRAM (dynamic random access memory).

Concern that the Korean and Taiwanese industries are gaining ground, while Hong Kong is slipping behind is what pushed the Hong Kong authorities last year into what officials call a "radical" departure for the laissez-faire state. The Government believes that its industrialists are failing to make needed medium-term investments to upgrade technology because of the easy profits they are making out of joint venture assembly operations across the border in mainland China.

The Hong Kong Government is thus entering the business of what it calls "developmental support." To help companies with training and technology transfer in three areas where it believes the Hong Kong electronics industry should be focusing in future, it is setting up a digital communications laboratory, a surface mount technology lab and a customised microchip (application specific integrated circuit) design centre.

"We don't have an ERSO (Electronics Research and Service Organisation) and an ITRI, but we will have elements of them," says Mr K.Y.Yeung, the Director of Industry.

In what has echoes of a late conversion to a "pick the winners" policy, Hong Kong also plans to employ consultants to study promising new technologies with potential industrial application, and to recommend whether support services should be provided for them.

● Tariffs. These, and non-tariff barriers, were for a long time the major instruments of industrial policy and protection in Korea and Taiwan. Hong Kong and Singapore are duty free ports. But the use of tariff weapons to protect industry against foreign competition has become increasingly difficult because of the threat of retaliation by trading partners.

Also administrations in Korea and Taiwan increasingly see merit in the arguments that the opening up of markets promotes efficiency through more vigorous competition. Both have thus begun to remove import barriers and lower tariffs, though Taiwan is much further down this road than Korea.

Albeit decreasingly so, however, import restrictions still remain a key element in protecting certain sectors. Try carrying a portable Toshiba computer into Korea and you will be stopped at the airport even though portable computers can officially be imported. Japanese portable computers, along with Japanese cars and cameras, appear on a list of 150 items that cannot be brought in under what is called the "diversification" programme.

The aim of this is to diversify Korean imports away from Japan to other countries – and most importantly to the US. But it is also a convenient way of protecting Korean manufacturers from their closest and strongest international competitors.

Apart from the diversification programme, there are a battery of other laws and regulations which can be used to stop unwelcome imports. A pharmaceuticals law gives the Ministry of Health power to prevent the import of medical equipment, while any item can be restricted if put on a "surveillance" list intended to guard against a surge in imports.

Both tariffs and non tariff barriers have been used to protect the domestic car industry. Though foreign cars over 2,000cc were officially allowed into the country from the summer of 1987, by the end of this January none had actually cleared all the barriers.

Taiwan now also uses tariffs most extensively to protect its car industry with a top rate last year of 58 per cent applied to six car components. But unlike Korea, there are no restrictions on manufacturers, local or foreign, entering the industry.

Tariffs on imported cars are also coming down fast, as witness the surge in imports of US cars this year. By 1991 the tariff rate on imported new cars will be down to 30 per cent from 42 per cent.

● Finance. Both Korea and Taiwan extensively used the state-controlled banking system in the 1960s and 1970s as an instrument of policy to channel savings into manufacturing and exports.

Favoured industries or sectors could look to preferential access to domestic credit or foreign exchange and to subsidised interest rates. Non-industrial borrowers had to look outside the banking system and pay the high interest rates demanded by the "kerb" market. The heavy indebtedness of companies left them vulnerable to government pressure.

But this system has been substantially modified, even if the financial markets remain one of the most under-developed parts of the economy. The large Korean conglomerates have alternative sources of funds through borrowing outside the banking system, issuing commercial paper and raising fresh equity. Strong profit increases over the last two years have reduced their debt-equity ratios from 6-7:1 to a still high 4-5:1.

In Taiwan banks and companies are so liquid after the export boom and the surge in company profits, that demand for credit has fallen sharply. Domestic corporate bonds are still unknown in the country. Direct government intervention through the banking system, as occurred last October when banks were ordered to support share prices in the wake of the stock market crash, is now sufficiently rare to provoke comment. Both bankers and Parliamentarians attacked the Government for the move.

In both countries the financial system nonetheless favours large industrial borrowers because the conservative banks lend only against collateral (which the large companies can provide) and because it is difficult for them to turn down their largest clients.

Thus in an effort to limit the Korean conglomerates from crowding out smaller borrowers, the Korean Government has confined to 35 per cent the amount of bank credit that can be issued to the *chaebol*. It is, however, a rule that is often breached.

The Korean banks have officially been denationalised, but in practice their top officials are still named by the Government. An obstacle to further reform is that the banks' major shareholders are the same conglomerates which are their major clients.

In addition, most of the 25 securities and 32 short-term finance houses are largely owned by the conglomerates. Thus the establishment of a completely independent and private banking system would in present circumstances reinforce the *chaebol's* grip over the economy.

Hong Kong has an open, international financial market which means that corporations borrow at market rates. In Singapore, the Government has a strong hold over savings through the Central Provident Fund (CPF) which currently levies 35 per cent of employees' salaries. But these funds have been used to develop Singapore's housing and infrastructure rather than industry.

● Restructuring. Government funds are available in Korea and Taiwan to help industry to restructure. Taiwan has a "strategic" loan programme to help companies move into new technologies. It has budgeted this year a NT$ 1.5bn credit guarantee fund to assist small and medium-sized firms to adjust to the New Taiwan dollar's appreciation by developing new products.

The Government also pays in part for consultancy services for traditional industries like hand tools, bicycles, hand bags and sports rackets. The aim is to help them improve productivity, through automation, and to develop their marketing.

In Korea, the rise in the yen and hence the sharp increase in the cost of components from Japan, led the Government to accelerate schemes to increase the local content of Korean products. In 1986, the Government named some 650 items for "localisation" and provided $120m in funds to help.

Since then the list has been extended, mainly in the electronics and automobile industries, and more money has been provided. Though Korea remains heavily dependent on *Japanese components*, the proportion of imported parts in VCRs has dropped, for instance, from 50 per cent a few years ago to 30 per cent

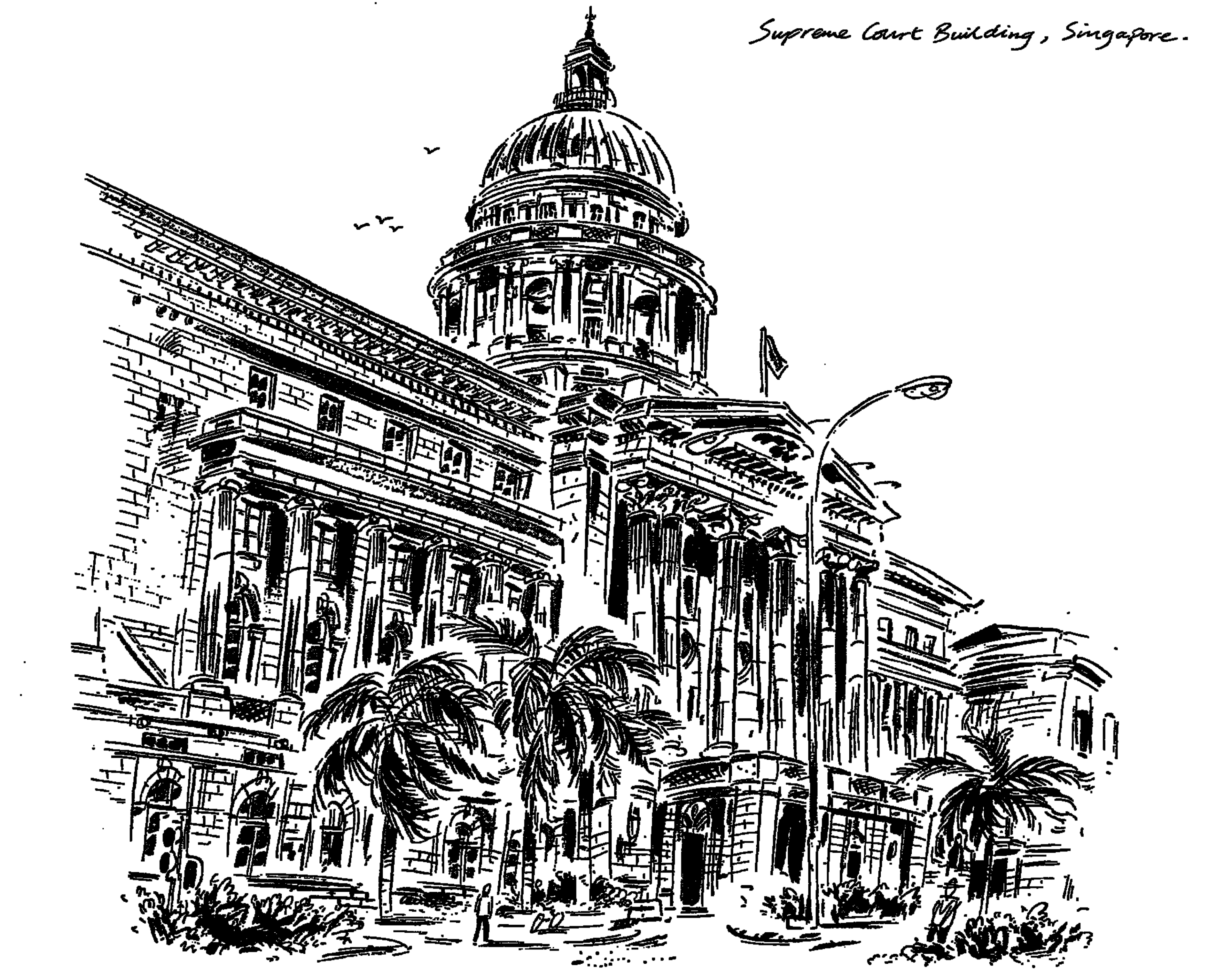
Korea also has a battery of other funds – the Industry Development Fund, the Petroleum Fund, the Technology Development Fund – intended to help smaller and medium-sized companies to improve their productivity and upgrade their technology. The textiles and electronics sectors have been the major beneficiaries.

● State-owned enterprises. Both Singapore and Taiwan set up state-owned companies to establish an industrial presence where the private sector had not the funds to invest or was unwilling to take the risk. The trend is now towards privatisation. Singapore has gone further down this road but the pace is slow.

Singapore had a staggering 634 state-owned companies in 1986, spread across sectors such as shipbuilding, steel, airlines, retails stores, gaming, taxi cabs, banking, shipping, engineering consultancy services and refined sugar. Most of these companies are subsidiaries of large state holding conglomerates, like Temasek or Sheng-li, or of statutory bodies such as the Post Office Savings Bank or the Civil Aviation Authority.

The number of government-owned firms has already been cut to below 500. A government-appointed committee last year recommended the privatisation of 41 companies, including a reduction of the Government shareholding in such large corporations as Singapore Airlines, Keppel Corporation and the Sembawang Shipyards. But even where privatisation is going ahead, the Government is in most cases retaining management control.

In Taiwan, state-owned companies were set up in the 1970s to take the country into the steel, petrochemicals and shipbuilding industries. Generally, through the Bank of Communications, the government-owned development bank, still takes a stake in high technology ventures such as the Taiwan Semiconductor Manufacturing Corporation, the size of the public sector is being dwarfed by the more rapid expansion of the private sector.



Frontiers between what government does and what is left to business are shifting in favour of the private sector

Hong Kong's fear is that it is slipping technologically behind South Korea, Taiwan and Singapore

B.G.Lee: Committed to mastery of Singapore's domestic affairs

WITH HIS long gangling arms, his slightly archaic English expressions and his sharp, ferreting looks, it would be easy to mistake Mr Lee Hsien Loong for an Oxbridge professor.

But that is to forget that apart from being a Cambridge graduate, the son of Singapore's Prime Minister, and Minister for Trade and Industry, Brigadier-General (B.G.) Lee is also a junior Minister of Defence.

He talks enthusiastically and with a mastery of detail over a range of topics from macroeconomic management, to technology policy and the encouragement of local business. But his features stiffen with that swiftness of an intelligence officer when the conversation shifts to matters he judges touch Singapore's national security.

Does he think that Singapore's business community will suffer from the government imposed restrictions on the circulation of the foreign press? Not really, he replies.

Under legislation the Government has introduced, newspapers can be photocopied (the law lays down certain conditions) and sold more cheaply. "They will circulate even better," he says.

But in a question on the Government's dispute with the Far Eastern Economic Review and its allegedly "engaging in Singapore's domestic affairs," he detects a key issue. This is "do we maintain a firm line and remain master of our household – or do let others twist our tails and run riot and destabilise the place?"

He goes on: "As far as business is concerned, what we are doing, does not affect them. They can get the news." But what is important, he says, is to engender confidence that "the Government can stand up to its critics and do what is right. If people did not think that, we would be in trouble. This place runs on confidence and thus on a predictable environment and a team *of men who make logical* decisions and who have the room and powers to make them stick. That is why people invest" in Singapore.

With Mr Goh Chok Tong, the First Deputy Prime Minister, Mr Lee is among the most prominent of the "younger generation" leaders to whom Mr Lee Kuan Yew eventually expects to hand over power. His most notable task to date has been to head the Economic Committee that the Government set up when Singapore suffered its first recession since independence in 1985.

The short-term measures Mr Lee proposed to restore Singapore's competitiveness were a two year wage freeze, a reduction in employers' contributions to the state managed compulsory insurance fund, and corporate tax cuts.

Over the longer term, Mr Lee advocated less government intervention, more privatisation, a more flexible wages policy, encouragement to more Singaporeans to establish their own business, and changes in the education system geared to encouraging more creativity.

It was probably the most self critical official report to come of out of Singapore in recent years. And it was seen as significant that the Prime Minister's son was in charge of it.

Mr Lee believes that [illegible] But [illegible] period two things can be done to make good Singapore's lack – by comparison with the other Asian NICs – of indigenous entrepreneurs. Schools and universities need to provide an open-ended and enquiry-based education. Secondly, increasing numbers of graduates will move from the civil service and multinational *companies to take over existing public sector* companies and reorganise them.

"That's where new companies will come from, not from penniless geniuses," he says.

Mr Lee sees the public sector as increasingly shedding the host of commercial activities, from industry to hotels, that it spawned over the years. "If the government had not done this, these ventures would not have been born. But now they are past the teenage stage, should they not be turned out of the nest?" he asks. The private sector has the "visionary leadership" to develop them. "Therefore why not hive them off? Over the next decade this will be done."

Though Mr Lee would like to build up a stronger Singaporean private sector and encourage local entrepreneurial or creative talent, his "bottom line" is not the ownership of companies but whether they will contribute to economic success.

"If we cannot get six per cent growth a year, it does not matter how many Nobel prizes we have," he says. The final test is "whether we can get the economy to grow steadily and on a broad scale to lift up the people not just individuals...and in a way that does not lead to dissension and schism."

For a number of reasons, he believes that Singapore cannot hope to grow as fast in the future as the other NICs. It is already at a more advanced state of growth. The others can look to increases in their labour force, which Singapore cannot expect. Korea and Taiwan have more natural resources. With Hong Kong, all three *can build on single-culture, homogeneous* societies, with the educational advantages that this brings.

"The way for us to grow," he says, "is to play in and be part of a global network – so we can energise ourselves from overseas." The Economic Committee's report put a lot of emphasis on Singapore attracting multinationals that would establish regional headquarters in the country, providing technological and managerial services for other subsidiaries elsewhere in South East Asia.

Mr Lee has publicly encouraged wider participation in decision making. But do critics risk being treated as dissidents?

"The principle we stand by firmly," he says, "is that criticism must be logical and not sterile. Whatever proposal is made as national policy must be subject to rigorous scrutiny whether or not it is taken seriously or accepted. Thus any proposal, whether by a member of Parliament, a minister, or even the Prime Minister himself, has to be examined carefully. Unfortunately when you apply that standard not all ideas measure up.

"The alternative is to try this for three years, and if it does not work go back to the original idea and try again. But you see where that leads in so many countries," he says.

TECHNOLOGY

A push towards global status

Companies like Samsung and Multitech are set to play a bigger role in an increasingly interdependent high tech world

WHEN US semiconductor manufacturers brought out the first generation of 64K DRAM (dynamic random access memory) chips it took the Koreans three years to catch up. Not until 1984 did they go into commercial production with an equivalent product.

By 1990 when Samsung brings out a 4-megabit chip, with a memory capacity four times higher than any existing chip on the market, the group reckons it will be almost "shoulder to shoulder" with its Japanese and US competitors.

Likewise when Apple, the US computer company, brought out its 8-bit Apple II model in 1978, it took the Taiwanese four years to produce an equivalent. By 1986, Multitech, Taiwan's largest computer manufacturer was only a few months behind the US group Compaq in bringing out a 32-bit computer based on Intel's 80386 microprocessor.

This summer Multitech is planning to launch four "clones" of IBM's PS/2 personal computer, a machine launched only last year and far harder to emulate than any other PC.

There are few things so impressive in the track record of the newly industrialised countries (NICs) as their ability to absorb foreign technology. They have got hold of it through fair means and foul — through licences and royalty payments (the legal way), through copying it, stealing it or hiring foreign consultants to show them the way. They are now at the stage when they are beginning to develop their own.

Success in doing so brings the greater profits that come from designing and developing a product. It opens up new possibilities in data processing, communications and high-definition TV. For the larger East Asian companies, it also introduces the possibilities of strategic alliances with US or Japanese companies to develop new products, rather than being a second-tier partner dependent other people's technology.

Prudential-Bache, the US securities firm says that: "The pace of absorption of Japanese technology (in consumer electronics) by the Asian NICs is occurring even faster than the speed at which Japan absorbed US and European technology."

The NICs' share of world exports of consumer electronics goods thus doubled from 15 per cent in 1985 to 30 per cent in 1987.

Nonetheless the bulk of the TVs, video cassette recorders (VCRs), hi-fi sets or microwave ovens currently turned out by East Asian factories are products assembled locally but dependent on foreign supplies for key components.

The yardstick of this is that Korea depends for 80 per cent of its integrated circuits on imports (mainly Japanese). It reckons that in seven years time, even after substantial investments in semiconductors, it will have only reduced this ratio to 65 per cent.

Another way of looking at the same picture is that Samsung, the largest of the Korean electronics groups, still derives 60 per cent of its sales from OEM (original equipment manufacturing) done under contract to large foreign groups. It is "our shame story," says Mr B.M. Park, general manager of Samsung's planning and research division.

The importance of Samsung's development of the 4-megabit chip and of Multitech's development of a PS/2 equivalent is that they are examples of both countries beginning to master the micro-circuitry design which is at the heart of innovation in electronics and by extension in all the other sectors of industry where microelectronics are coming to have an increasingly important role.

The two examples also reflect the widely differing approaches of the two countries to the semiconductor industry.

Korea has chosen to specialise in DRAM memory chips where the capital investment is high and the potential output large. Memory chips are commodity items required in large numbers in all types of data processing and electronics equipment. Competition in memory chips is over how much greater data storage capacity can be packed on the chip through increasingly dense circuit integration.

In this sense memory chips serve as a "technology driver" in very large scale integrated (VLSI) circuit design. They were used in this way by the Japanese in attempting to reduce the early lead the US had in semiconductors.

By contrast Taiwan has concentrated on the design of Application Specific Integrated Circuits (ASICS) or customised chips. The immediate advantage for a country with smaller companies and less resources is that ASICS design requires much less capital — in effect only the salaries of the researchers and the computer-aided design equipment they require.

ASICS design involves taking a standard circuit pattern and modifying it or linking it with another pattern to achieve a new function.

Higher working speeds can be achieved at lower cost. In consumer electronics, ASICS can mean adding a musical alarm to a watch or increasing the number of programmes a VCR can retain in its memory. Japan has been using its superiority in ASICS design to accelerate the number of new models of any one product that it brings out, thus leaving its competitors behind.

The rest of this section looks in more detail at Samsung's development of memory chips and the growth of Multitech and ASICS design in Taiwan. It is thus looking at the transfer of technology and at the role of government and private sector in it from a selective viewpoint.

If this section of the report has a moral, it is one that has already emerged in the introduction. This is that Korean and Taiwanese companies — and even more so their counterparts in Singapore or Hong Kong — can achieve a state-of-the-art technology if they focus on a specific area.

Like any other multinational, however, they lack the resources to do everything themselves. Both Samsung and Multitech will need US or Japanese partners if they are to design and develop microprocessors themselves. In that sense they move from being national players to global companies in an increasingly interdependent world.

Samsung enjoys the fruits of its semiconductor initiative

IT WAS Mr Lee Byung-chull, the former chairman of Samsung who died last year, who decided that semiconductors should be the group's first priority. "I am convinced that the semiconductor industry holds the key to the future of the Korean economy," he said in 1983 at the opening of Samsung's first VLSI (very large scale integration) wafer fabrication plant at Kiheung, near Seoul.

The following year the group was producing its 64K DRAM, as the first Korean company to move into memory chip manufacturing.

Samsung was already a large diversified group with interests in textiles, sugar, hotels, insurance, chemicals, shipbuilding and consumer electronics. It had annual sales of over $10bn.

Mr Lee had begun his business career by setting up a fruit and dried food exporting company before the war. He had one nasty brush with the authorities after President Park Chung Hee took over the in the early 1960s. He was accused of illegally amassing wealth and had much of it taxed or confiscated.

But in the 1970s Samsung was back in government favour and was used by the Government to carry Korea into the chemical and metal fabrication industries — hence the establishment of Samsung Shipbuilding and Heavy Industries and Samsung Petrochemicals.

Korea's first experience of semiconductors had been in the early 1960s when large US groups like Signetics, Fairchild and Motorola began moving their assembly and packaging operations out of the US and into the Far East. The fitting of connecting wires to a semiconductor device was at that time a laborious operation that had to be done by hand, and the US multinationals found they could not compete against the Japanese unless they shifted that part of the operation to countries like Hong Kong, Korea and Taiwan where labour was cheaper.

Samsung had come to semiconductors through consumer electronics. It had begun to export black and white televisions to the US in 1969. In 1974 it entered into a joint venture to produce integrated circuits for electronic watches. This gave the group its first direct experience of how many functions could be packed into a tiny chip.

It also showed how much introducing new products or new features in consumer electronics, whether watches, calculators or televisions, depended on mastering chip design.

By 1983, the obvious next step for Samsung — as indeed for the Korean conglomerates which were moving in the same direction and expanding their semiconductor activities — was to move into memory chips and thus into the 64K DRAM.

The worldwide market was potentially large because of the growth of computerised data storage. The chips are thus high volume products which to produce need highly trained operators working with intense concentration; a combination well suited to Korea's particular manufacturing skills.

The Japanese were already forcing down prices, thus squeezing out US and European competitors but leaving the door open to lower cost entrants. Above all, however, the 64K DRAM chip could be used as a "technology driver" in the sense that mastery of its design and process technology provided the ladder up to packing more functions onto a chip. The Japanese were thus already using memory chips to catch up with the American advance in integrated circuits.

At the same time the base technology of the 64K DRAM was not difficult to acquire because it had already been in commercial production in the US for two years and American and Japanese producers were working on higher levels of integration. The technology could be either purchased through a licence (as Samsung did by acquiring a licence from Micron Technology of the US) or by reverse engineering (rebuilding chips after seeing how they worked).

Every expedient has been used, from flying in foreign consultants to 'working the skins off' its own engineers

Mr Lee Chong-guk, director of the Science and Technology division of the KAIST, Korea's large research organisation, says the real problem was to build a plant with a sufficiently high yield of defect-free wafers to make it commercially viable. It was in this that Samsung's real success lay.

The wafer fabrication plant was put up in six months, to the amazement of the semiconductor industry which was used to construction times of a year and doubted in any case whether the Koreans could run it.

Samsung used every expedient available, from flying in foreign consultants to "working the skins off" its own engineers. The group thought that it was hitting the market during a boom. "We forecast a wafer production of 2m through the rest of the year. In fact it turned out to be 7m," says Mr Sung Vol Choi, director of Strategic Planning for Samsung Semiconductor and Telecommunications (SST). "That's the kind of productivity we demonstrate in Korea."

But optimism quickly turned to ashes. In 1985 semiconductor demand slumped worldwide and Samsung had to halt production of 64K DRAMs. In retrospect, the company had got into the market at the last moment and had its first experience of the violent cyclical swings which make the industry such a financially risky place.

The Government at this stage had not been deeply involved in the development of the semiconductor industry. It maintained close contact with Samsung, as well as with Hyundai and Goldstar which were also venturing into memory chips. Finance, as with other large investments, was coming through the state-controlled banking system.

In an attempt to "pick winners" in chemicals and heavy industries, the Government had got its fingers badly burnt in the 1970s. The economic stabilisation plan in force was still attempting to mop up the consequences of over-capacity and inflation.

The Government was not going to risk putting its weight behind another high-risk, capital-intensive industry. Besides, it had tried in 1976 to secure collaboration between the major electronics groups in setting up the Korea Institute of Electronics Technology. The venture had proved a failure.

When the semiconductor market suffered a worldwide downturn in 1985, the Government's thoughts were far from pumping in fresh money. "Because of the gloomy world outlook, we worried about the possibility of excessive investment," says Mr Lee Chong-guk. "We wondered whether the Government should intervene to rationalise investment in the semiconductor industry. But because the investment had been made by the companies out of their own funds we decided to do nothing."

The companies thus pursued their individual strategies. Though they were all pushing at similar markets, and probing similar technologies, their styles were different. Samsung was the group which decided to put most of its eggs into semiconductors and to invest most heavily in becoming a global player in the manufacture of memory chips.

Between 1983 and 1987, the group invested $760m in semiconductors, well over half the $1.2bn spent by Korean industry. In 1986, the year of the semiconductor slump, Samsung committed $220m to semiconductors, equivalent to almost a third of total group investment for the year and a sign of the far greater "high-wire risks" Korean groups are prepared to take compared with their Japanese counterparts.

Samsung was thus able to bring out the next generation 256K DRAM memory chip in the middle of the chip industry's market cycle. It had established a US subsidiary in Santa Clara, California that was to carry much of the research to develop the 1 and 4-megabit chips.

But the cost to the balance sheet of Samsung Semiconductor and Telecommunications, the Korean subsidiary that controls Samsung's semiconductor interests, was heavy. SST's debt-equity ratio had surged from 130 per cent in 1983 to 678 per cent by mid-1987, on a total long and short-term debt of Won 688bn ($850m).

Revenues from memory chips, which account for about half of SST's sales, had risen in 1987 to about $165m. Even then the Koreans had been helped enormously by the US-Japanese semiconductor agreement which had raised prices in the US and meant that US industry was anxious to find an alternative supplier to the Japanese.

By 1986, the Government had decided to get more deeply involved in integrated circuit development. It proposed to Samsung, Hyundai, and Goldstar, the three groups with the strongest base in DRAM technology, a Japanese-style consortium to develop a 4-megabit chip in conjunction with the Government research institute, ETRI. The project was to receive $100m over three years.

The reason for this change of heart was in part the increasing complexity of the research as the Koreans moved closer to state-of-the-art technology. But also the Government was getting worried by the amounts that Korean industry was having to pay out each year in royalties, reflecting its dependence on foreign licences.

The electronics industry accounted for a third of this, or $148m in 1986. In addition, however, the Government was planning a national computer network costing several hundred million dollars and covering the administration, the education system, banking and finance and defence.

Korean companies would be given the lion's share of the contracts which would be using government procurement to give an enormous boost to their computer and telecommunications technology.

The joint development of the 4-megabit DRAM could thus be seen as a step in that direction. The timing provided for the three groups to present sample chips to the Government in the first half of this year.

In practice, collaboration has proved difficult because the three are at varying stages of technology and their strategies are different. Samsung had developed a 1-megabit chip largely on its own and is developing the 4-megabit chip at its Silicon Valley subsidiary. Mr Choi favours each company concentrating on different products and feels the others have not fully realised the costs and technical problems that lie ahead in developing DRAM technology.

Goldstar has been putting more emphasis on ASICS design as a back up for its consumer electronics division. It is the Korean group which brings out the largest number of new colour television models and innovative features. It feels that, with the Japanese cutting the product cycle to six months or less, it needs to concentrate on ASICS design which controls the pace of product change. Samsung is weaker in this area.

In financial terms, 1987 opened for Samsung — as it did for the other major groups — with the prospect of the yen's appreciation providing a windfall for the region's low-cost consumer electronics producers, since their national currencies had followed the US dollar down. Samsung, Goldstar and Daewoo expanded their capacities by an average 80 per cent.

Samsung's investments in electronics doubled to Won 500bn, or more than three times the investment in semiconductors. The temptations of quick cash earnings were too strong. Besides, the group was hesitating over whether to commit another $200m to a new wafer fabrication line to produce the 1-megabit chip at Kiheung.

An engineering sample of the chip had been given a place of honour in the exhibition hall of the new Samsung Advanced Institute of Technology, the group's most ambitious research centre, that had just been opened close to Kiheung.

It had been placed on top of a huge jar that contained the 1m transistors that the tiny chip could replace. A pilot line was also in operation at Kiheung. But wafer yields — the proportion of usable silicon wafers — were low compared with the levels achieved by the Japanese.

At the same time SST's heavy indebtedness — and the true picture was probably worse because of off-balance sheet borrowing from other group subsidiaries — made further large borrowings difficult. The outlook for semiconductor demand seemed uncertain because of the prospect of a US recession.

And hanging over Samsung was a legal suit in which Texas Instruments was seeking retroactive compensation from foreign producers of memory chips for infringing its patent rights to DRAM technology. In the end Samsung agreed to pay $85m to Texas, spreading the cost in domestic accounting terms over several years. Brokers, however, began to forecast a downturn in Samsung's profits for 1988.

What dramatically changed the situation was the unexpected surge in demand for memory chips, and particularly the 1-megabit chip in the first quarter of this year, encouraging even US manufacturers to return to memory chip production.

Samsung hurried forward a $350m investment programme at Kiheung, including a state-of-the-art "clean" room, dust-free for integrated circuit manufacture.

The Texas Instruments case was a further factor convincing the company that it needed to sink more funds into integrated circuit research and development. It vividly brought home the cost of depending on foreign sources of technology, and the fact that, with the US concern having intellectual property rights, the old East Asian "copycat" practices were no longer possible either.

"The major lesson we learnt is that we should develop our own technology," says Mr Lee Yoon-woo, manager of the Kiheung plant.

By the end of this year Samsung hopes to raise 1-megabit DRAM production to [illegible] a month. With planned increase to 7m units a month by the end of 1989, it will rank as the third largest producer in the world. Toshiba of Japan is the largest.

The improved earnings outlook, and the overall reduction in Korea's foreign debt, meant Samsung was able to negotiate better terms on its outstanding foreign borrowings. It also gave the group the confidence to announce that it would begin mass production of 4-megabit chips by the beginning of 1990.

In the long term, as a high volume manufacturer of commodity chips, Samsung has certain advantages over its Japanese competitors. Its labour costs are probably a fifth of Japan's. Operators are also easier to recruit. "In Japan if you want to hire 100 people for this type of work, you only get 50," says Mr Lee Yoon-woo. "Here we get 1,000 candidates."

At Kiheung, the average age of the girl operators is 22. They live in dormitories on the site, work a three-shift system so that the plant is in continuous operation, and stay with the company for four or five years.

The obvious next step was a move into memory chips

In terms of IC technology, Samsung's and Korea's ambitions stretch much further. On their own assessment, they are now approaching a "leading edge" position in memory technology but are at an "infant stage" in other areas of IC design, including ASICS.

They currently import 80 per cent of the chips they use in consumer electronics, data processing and other industries requiring microprocessors. This proportion will only drop to 65 per cent by 1995.

It is this continuing and large dependence that makes men like Mr Kim Jung-soon, Executive Director of Goldstar's semiconductor research laboratory take a gloomy view of Korea's technology capabilities.

"We are in the primary school stage in semiconductor technology compared with the US, Europe and Japan," he says. "People over-rate our capabilities. We have a long way to go. We are 30 years behind Japan."

On the official assessment, Korea will nonetheless have a design capability in most areas by 1995, and be among the world leaders in process technology.

But the Koreans also know that to get that far, they cannot do it entirely on their own. They have neither the resources nor the research manpower. To develop 16-bit or 32-bit microprocessors, they will need to go into partnership with another Japanese, US or European producer. Mastering DRAM technology gives them the cards to enter the game. But like the other players, they will also be dependent on strategic alliances to complement their own strength.

Multitech's trump card is its R&D expertise

TAIWAN has no large conglomerates like Samsung. Its biggest electronics groups, Tatung, Sampo and Teco, are a fraction of the size of their Korean competitors.

They are far more dependent on OEM contracts and thus suffer more from the slim margins that go with them. Tatung and Sampo have both tried to establish their own own TV brand names in the US but ran into considerable difficulties.

Like all Taiwanese electronics companies their domestic sales have been hit over the last two years by the sharp drop in tariffs on imported goods (duties on colour TVs have been cut by half to 25 per cent) and more recently by the appreciation off the New Taiwan dollar.

Korean groups like Goldstar and Samsung have thus been undercutting the price of Taiwanese models by 10 per cent within Taiwan. The measure of their pain is that Mr W.S. Lin, the President of Tatung, has called on his government to take anti-dumping measures against the Koreans.

But the strength of Taiwan manufacturers is less and less in standard, high volume consumer products where they are in danger of being overtaken not only by the Koreans but also by mainland China and Thailand. Over the past five years they have been quietly establishing a substantial presence in data processing and ASICS (application specific integrated circuit) chip design.

Nowhere else in Asia has the personal computer revolution spun off such a frenzy of activity. Taiwan has over 100 computer manufacturers (compared with probably less than 10 in Korea) involved in anything from "clone" making to add-on graphics and communications cards, Chinese-character computer systems, software packages and the development of systems integration through multi-user workstations.

Exports of data processing goods have leapt from almost nothing in 1980 to $3.8bn last year. Over 60 per cent of chips used in Taiwan go into data processing.

Outside Japan, Taiwan has also developed the greatest expertise in Asia in ASICS design. At the end of last year there were an astonishing 58 design houses in Taiwan. Many of these are small and are probably destined to disappear. But the figure compares with the 218 estimated to exist in the whole of Europe by Dataquest, the US market research group.

Taiwan has built up this position in part because of the emphasis put by the government research institute the Industrial Technology Research Institute (ITRI) and its electronics subsidiary the Electronics Research and Service Organisation (ERSO) on microelectronics and the training of engineers. It currently has 2,600 engineers doing post-graduate research.

Taiwan has also benefited from the increasing numbers of engineers, consultants and researchers travelling back and forth between Taipei and Silicon Valley, in the US, where Chinese Americans are strongly represented in the West Coast semiconductor and computer industries.

"We are in 24-hour contact with Silicon Valley," says Mr Stanley Shih, the head of Multitech.

Taiwan has also gained enormously from the multinationals, including IBM, Digital Equipment, Wang, Hewlett-Packard and Philips, which have established facilities in Taiwan. Philips is providing the technology for the new semiconductor wafer fabrication plant of Taiwan Semiconductor Manufacturing Corporation, a Government-backed joint venture in which Philips has 27 per cent holding.

The plant will be one of the most advanced in Asia, capable of making chips where the design rule has been compressed to a sub micron level. ASICS houses in Taiwan currently work at the 1.2 to 2 micron level or above.

It is out of this environment that Mr Stanley Shih, of Multitech, sprang. He has become something of a symbol and unofficial spokesman for Taiwan's fast expanding computer industry. He began his electronics career designing the first hand-held calculator for the Taiwanese company Qualitron. When the company went bust, he founded Multitech 12 years ago on $25,000 of capital raised by himself, his wife and a few friends.

Multitech, which recently changed its brand name to Acer, now has worldwide sales of $300m, and last year expanded in the US by taking over Counterpoint, a Californian minicomputer maker.

Mr Shih does not believe that a Taiwanese group can ever hope to create an industry standard in the computer industry, as IBM or Apple have done with their personal computers. His focus up to now has thus been on producing a range of IBM-compatibles, including 16-bit and 32-bit machines, and this year the PS/2 model.

He claims they sell at a third of the cost of those of European or US competitors and operate at 30-50 per cent the speed. "That is the key issue," he says. His company won a major gesture of support last year when Texas Instruments, in an unusual reversal of the OEM role, announced that it would manufacture in the US 32-bit computers designed by Acer, to be marketed under the Texas Instruments brand name.

Acer's strength is its research and development (R&D) team. The company currently has 400 engineers, but Mr Shih plans that the number will double by 1991. Acer can thus redesign a computer from scratch to bring down its cost, improve its performance and add new features. This is what distinguishes those, like Acer, which design their own machines from those that simply assemble standardised components made by others.

Such clone makers have to buy in not only the central processing unit (CPU) that is the brains of the computer, but also the ASICS chips that drive the printer or enhance the graphics display. Acer, like them, makes use of a standard CPU. But the rest of the ASICS design is done in-house.

Mr Shih had a team working for three years in Silicon Valley to produce a 32-bit computer. He reckons that he spent $3m to give him the ability to do it and he spent a further $1m on development.

His engineers say that IBM's PS/2 has proved a much more difficult proposition because of the problems of avoiding infringing IBM's intellectual property right when reproducing the "microchannel" by which the machine communicates with peripherals (display screen, printer, etc.).

Taiwan's emphasis on an ASICS design capacity has been pushed by ITRI which sees digital technology as being the common language of data processing, consumer electronics and telecommunications.

Dr Hu Ding-hua, executive vice-president of ITRI believes that a mastery of ASICS design can give Taiwanese firms a competitive edge against the large-volume Korean producers, because they will be able to bring in newer products faster. "In putting an emphasis on ASICS," he says, "we have the advantage of being able to get in at the early stage of the product cycle."

ITRI sees its work as transferring new core technologies to industry and helping it both with trained manpower and to develop new products.

One of its most successful ventures was helping to set up United Microelectronics. Now a largely private company, it was established with government funds and a pool of ITRI engineers. It designs chips for toys, telephones, watches and calculators and operates its own wafer fabrication plant. Sales have surged from $27m in 1984 to about $100m last year.

ITRI releases about 300 engineers a year to join private sector companies. "We conceive that as part of our contribution to industry," says Dr Hu. "We like a good turnover."

Mr Stanley Shih, head of Multitech: In 24-hour contact with Silicon Valley

ITRI's most ambitious undertaking, however, is the setting up of Taiwan Semiconductor Manufacturing Corp. in conjunction with Philips. After a pilot wafer fabrication plant costing some $50m, TSMC is now building a new plant at a cost of $220m. This will be able to work at sub-micron technology, and the purpose is to give both local ASICS design houses and Taiwan based multinationals their own in-house "printing press" for high density integrated circuits.

With his purchase of Counterpoint, the Silicon Valley minicomputer company, Mr Shih is pushing Acer beyond computer manufacture into systems integration, thus providing combined data processing and communications services through workstations accessible to many users.

For the moment he wants Acer to digest its Counterpoint purchase. But he sees further expansion as providing the company with the ability to make its own microprocessor, possibly through the purchase of a Californian start up company.

He also believes he will need a partnership with a US software company. In the meantime, he intends this [illegible] or next to set up an R&D centre in [illegible] the company closer contact with the [illegible] it derives a third of its sales.

LABOUR

Workers begin to test their strength

A period of turbulent industrial relations has arrived, but will not necessarily dent manufacturing competitiveness

THE ERA when East Asia could count on industrial peace is over. Labour is better organised, more assertive and increasingly prepared to test its strength through industrial action.

But it is by no means certain that a more turbulent period of industrial relations will bring in its wake a loss of competitiveness.

The strikes and stoppages that have occurred over the last year in Korea and Taiwan – most widely in Korea – were no flash in the pan. They reflect what Dr Funkoo Park, a labour specialist at the Korean Development Institute calls the feeling that "*a significant proportion of the population did not share in the economic miracle*."

They also bear witness to a hostility to authoritarian management among factory workers. This has its political counterpart in opposition to authoritarianism in government.

"After martial law was lifted (in July 1987), the people's mentality began to change," says Mr Wang Ching-ping, chairman of the central committee of the newly formed Taiwanese Labour Party. "Workers were no longer ready to accept the paternalistic approach of management. They were prepared to fight it."

In Korea, the number of labour disputes *surged from a recent peak of* 400 in 1980 to over 3,500 in the turbulent months of July-October 1987, when strikes spread like brush fire though Korean industry.

Union membership increased by a third to 1.3m, and the type of membership also changed as workers shifted from the government-supported official unions to the new independent unions that were being set up.

In Taiwan, where strikes had been banned until last year, there were a wave of stoppages earlier this year involving companies such as Yue Loong, the car manufacturer, Tatung, the electronics group, Hualon, the textile company and Asia Cement. Most significant of all was the formation last year of a Labour Party committed to arousing workers' self awareness and establishing independent unions. Mr Wang says: "changes are happening that were unimaginable a year or two ago."

The question now is whether a more powerful union movement will fit smoothly into a more open system of industrial relations, or whether it will bring with it some of the disruption that has occured in the West.

President Roh Tae Woo seemed to hint last year that the former was possible when he said that the labour conflicts were an "inevitable phenomenon that we must go through in the process of development."

The Government's hope is that, as in Japan, a period of confrontation will be followed by long years of industrial peace. But quiescent, Japanese-style company unions are probably wishful thinking – in Korea at least.

The absence of industrial action in recent years makes it easy to forget that East Asia has had an earlier *period of more turbulent industrial* relations. Shanghai was rocked by bitterly fought strikes in the pre-war years, particularly during the struggles between the Kuomintang and the Communists.

In the Singapore in which Mr Lee Kuan Yew climbed to power in the 1950s, unions were an extension of politics, and strikes a political weapon. Political battles were also fought through unions in Hong Kong in the 1960s during the Cultural Revolution.

In Korea, it was labour troubles in 1962 and 1980 that provided the excuses for Presidents Park Chung Hee and Chun Doo Hwan to impose martial law. Taiwan also regarded labour agitation as synonymous with political opposition, as reflected by an administrative hierarchy that put the department of labour affairs under the Ministry of Interior.

"Until a year ago we had no strikes," says Mr Hsu Shyue-tao, the deputy director of the new Council for Labour Affairs. "If workers had gone on strike, they would have been punished under the law. But they did not go on strike."

Authoritarian management went hand in hand with authoritarian government. Hyundai, at origin a construction company which went into shipbuilding and car manufacture, has imposed on its labour force tough military-like discipline. Companies like Samsung in Korea and Tatung in Taiwan have cloaked their top-down style of management in the language of Confucian paternalism.

Tatung's corporate philosophy emphasises the unity of "management and labour" in the "big family of work." Samsung still does not allow unions but spends heavily on welfare to keep its employees happy.

Of late an increasing number of

Both sides lack skill in negotiations

companies have been breaking out of this mould. One of the earliest was China Steel, where Mr Y.T. Chao, the former president, recruited a young educated workforce that was divided into small teams which were encouraged, Japanese-style, to compete with each other in increasing productivity. POSCO, the state-owned Korea steel company has been run in a similar manner.

Foreign multinationals have also often taken the lead in giving more responsibility to shopfloor workers, as part of a global industrial relations policy. Ford in Taiwan has 94 per cent of its workforce involved in "quality circles" and claims that they are among the best educated of its workers anywhere.

High technology companies have also tended to be innovative. Multitech, the computer group, has a share participation scheme for employees and is bringing in flexible manufacturing techniques that demand more *individual responsibility*.

As against these pioneers, Korea, Taiwan, Hong Kong and Singapore have plenty of smaller and medium-sized companies where a 12-hour day is common, workshops are ill-ventilated and ill-lit, and the only authority is that of the employer (see accompanying article).

The emergence of a more assertive labour movement in Korea and Taiwan has brought unions, management and government face to face with new problems. Because government intervened in labour disputes, management and unions have no real experience of collective bargaining.

"The Government's tough approach over labour problems, deprived employers and workers of the opportunity to talk about the issues before them. Thus both sides lack skill in negotiations," says Dr Park Se-il of Seoul National University.

But already a different mood is beginning to emerge. "I don't say that the hierarchical atmosphere has disappeared but there is a change," says Dr Park, who worries whether it will take roots sufficiently among smaller companies.

Mr Wang Ching-ping of the Taiwanese Labour Party says that he was stunned to see pro-government newspapers during the disputes earlier this year urge managements to be more generous and to change their attitudes. The newly-formed Council for Labour Affairs notes the change by pointing to the 295 collective agreements which by February had been signed in industry. These were mainly among medium-size and larger companies, and were previously virtually unknown.

Labour, management and government are thus being forced to rethink their roles. Labour's focus has been on union representation and on pay. It wants to obtain unions that are more independent and representative, and thus in a stronger position to negotiate with management.

In Korea, the official union movement gathered under the umbrella of of the Federation of Korean Trade Unions lost credibility with the workers last year when it supported President Chun in his opposition to democratic elections and when it took a back seat during labour strikes.

Until this year Korean regulations made it difficult for independent unions to get recognition. Recent changes in the law still only permit one union to be formed in each company. But unions now have more freedom to affiliate to the federation of their choice.

In Taiwan, changes in the law have gone further, allowing employees to be represented by a company or a national union.

Notwithstanding the recent upsurge in the number of disputes, unions are wary of pushing their demands to strike action, because of the risk of confrontation with the authorities during a politically delicate period.

Mr Wang Yi-hsiung, the chairman of the Labour Party and its one representative in the Legislature says: "My attitude is to encourage workers to negotiate and not to strike. Labour needs to organise itself better. With better organisation it will have more power in negotiations."

In pressing their substantial pay demands, workers are in a relatively strong position. Unemployment is low and the demand for labour is still high. Even during the years 1982 to 1985, when the Government was trying to curb wage increases, industrial workers in Korea won hefty annual average rises of around 7 per cent in real terms, because labour demand remained strong.

As a result of last year's strikes they obtained an average 17 per cent in nominal terms, with some larger companies paying as much as 22 per cent.

Korean companies have so far suffered no loss of competitiveness from these large increases, because they have obtained largely offsetting gains in productivity and because of the continuing depreciation of the won.

In fact Korean labour costs in dollar terms actually declined between 1980 and 1985, falling 20 per cent over the five year period. In Taiwan, equally, unit labour costs by mid-1987 in dollar terms had returned to levels they had been seven years previously.

Employers now know that currency appreciation will help to push up labour costs as measured in dollars. What they fear is union-negotiated, across-the-board, national wage increases that fail to take account of the different circumstances of different sectors and companies. Hence in part the Korean Government's insistence on company-level unions that give management more flexibility.

Mr Lee Kuan Yew has been arguing a similar case in Singapore. "Unless we have have wage scales with a variable component," he says, "and less in-built yearly increments, (another) recession will result in sizeable retrenchments."

Companies in Korea already have the "variable component" in that a larger proportion of wages are paid out in overtime or bonuses. In Korea 30 per cent of earnings are accounted for by bonuses or overtime.

But the upward pressure on wages is also forcing employers to invest more heavily in automation to achieve higher productivity and thus offset rising wage costs. In this sense wage increases are having the beneficial effect of accelerating structural changes.

Mr Lee Kuan Yew used high wages as a deliberate instrument of policy in the early 1980s to force industry to upgrade its technology. But his experiment came unstuck, in part because the workforce had been insufficiently trained to make such

Taiwan unions are wary of going on strike

an abrupt transition possible.

Many managements around the region were badly caught off balance by the militant stance of labour. Formosa Plastics, Taiwan's largest company, found that the workforce rejected the complete list of company supported candidates in a union election. Hyundai of Korea had production at its car division crippled because it had left itself vulnerable to a shut down through a handful of component suppliers going on strike. It has been reorganising component supplies over the last year to prevent a repetition.

Many medium and smaller companies are also uncertain how to handle industrial relations in such a changed environment. Thus both Korea and Taiwan have projects for new management institutes aimed at educating management in personnel relations.

Governments have also been changing their policies to meet the new circumstances. Taiwan has transferred responsibility for labour affairs to the new Council, which is likely soon to be given ministerial status. Both Taiwan and Korea have revised their labour laws. Korea has also this year introduced a minimum wage, judged insufficient by the unions but intended as the beginning of a wider welfare programme.

For industries facing difficulties, like textiles, garments and footwear, the minimum wage has been fixed at Won 110,000 ($140) a month. While for the electronics, machinery and transportation industries it has been put *higher at Won 117,000*.

Two factors at least favour a smooth transition to a more unionised workforce without the disruptive confrontations that could jeopardise economic growth.

The structure of industry is changing, with the information and electronics sectors gaining in importance over traditional industries like steel, shipbuilding, and metal fabrication. This is a change that discourages large scale union organisation. At the same time the level of education in the workforce is rising and workers increasingly see themselves as middle class.

In addition, after years of spartan living, Koreans and Taiwanese are becoming increasingly consumer oriented. They see a wider range of goods in the shops and they want more money with which to buy them. They seem unlikely to institute major disruptive strikes and throw up this chance of improving their living standards.

Hard life for a casualty of last summer's strikes

INCHON is one of those industrial towns where you see the underside of the Korean "economic miracle". It spreads westwards from Seoul across an horizon of belching smokestacks, blackened workshops and tightly packed homes.

Mr Kim was dismissed from his job in a local factory making metal containers after taking part in a strike in August. He came to the Urban Industrial Mission, one of the Christian groups campaigning for an improvement in working conditions, to tell his story. The facts are impossible to check. But his account reflects some of the bitterness that currently sours industrial relations in South Korea.

Now 24 years old, he had joined the company 18 months before because he had heard that it paid better wages than similar local firms. The working day began at 8.30 in the morning and lasted till 10 pm, with a one hour break for lunch and a further 30 minutes for supper. On Saturdays he worked an 8 to 10-hour day and normally went in every other Sunday.

The company had about 300 employees. Mr Kim wore earplugs because the noise was so great. He also wore a protective face shield, but many people suffered from eye diseases. Overtime was compulsory and the company fixed the length of the working day. He earned a basic wage of Won 4,700 ($5.80) for an 8-hour day.

The first attempt to set up a union was in March last year but the company thwarted it by threatening and dismissing the workers involved. In July, when unions were springing up in other companies as a result of the summer strikes, the company created a union of its own. But Mr Kim says this was not representative. In August, the workers decided to form a "democratic" trade union and put its demands before the management.

These included a Won 1,500 a day pay increase, an increase in bonus payments, higher allowances for workers with large families, an end to productivity bonuses as being unfairly awarded and the disbandment of the "yellow" company union.

Mr Kim said the increase in the basic wage was the most important demand, because the existing wage was "barely enough to live on."

When the company refused these demands, most of the workers went on strike. The company tried to get them back to work by warning the families that the strikers' lives were in danger if they continued with their action. At the end of 10 days the management conceded a Won 400 a day basic pay rise and made concessions on some of the other points. The company also pledged not to take action against workers who had gone on strike.

Despite the company's pledge, Mr Kim was the fifth worker to be. He had first been asked to resign. He believed that his name had since been put on a "black list" of 1,652 workers in Inchon, circulated among local companies as people not to employ.

A good day's work in far off Britain

MR YOUNG-CHULL Rhee, head of the Samsung group's trading subsidiary in the UK, gets into his London office at 7.30 each morning. He expects to work a 13 to 14-hour day while posted in Britain, compared with the 12-hour day he normally does in Seoul.

He leaves his home in Kingston, where many South Koreans live, at between 6.30 and 6.45 am and returns just before 9 pm, except on the evenings he is entertaining. He says good humouredly that he cannot ask his staff to work the same long hours, but he "expects them to have a similar attitude towards their job."

His twelve Korean executives, nonetheless, have to be in their offices by eight – the time change means that telephone conversations with Seoul have to take place early in the day. He is more lenient with his European staff, who are required to arrive by nine o'clock.

Mr Rhee is one of the growing numbers of Koreans in Europe who reflect the rapid build-up of exports to the EC. He arrived more than three years ago when Samsung Company, the group's trading arm, was making losses on its British operations. In that period Korean trade with Europe has more than doubled.

Fluent English speaking, and with that directness that distinguishes Koreans from Japanese, Mr Rhee has had an unusual career for a senior executive with a major Korean group. He joined Samsung after being recruited from the Korea Exchange Bank, one of the main commercial banks, where he had risen to be deputy general manager. He complains that at that level of seniority, a banking job becomes less interesting because all the major decisions are taken by the Ministry of Finance.

He was recruited by a long time friend – "there are no head-hunters" in Korea, he says - whom he had known when both were at Seoul National University. The university, *the most famous in Korea*, takes the brightest of the nation's high school students.

Mr Rhee was the only one to be admitted from his high school some 50 miles from Pusan.

When Samsung approached Mr Rhee in 1980, it was suffering like other major Korean groups, from the credit squeeze that the Government had brought in to curb the inflation due to the overheating of the economy in the late 1970s .

"They *had* to find good, reliable, cheap sources of money," says Mr Rhee, who adds that at that time Samsung had no director "with training and experience in international finance." It also needed someone to co-ordinate foreign exchange operations because of the growing volatility of currency movements.

Trained as a professional manager, and with a background in finance and international business, he thus had the qualifications for the job. He entered the group with a brief "to build up the international side."

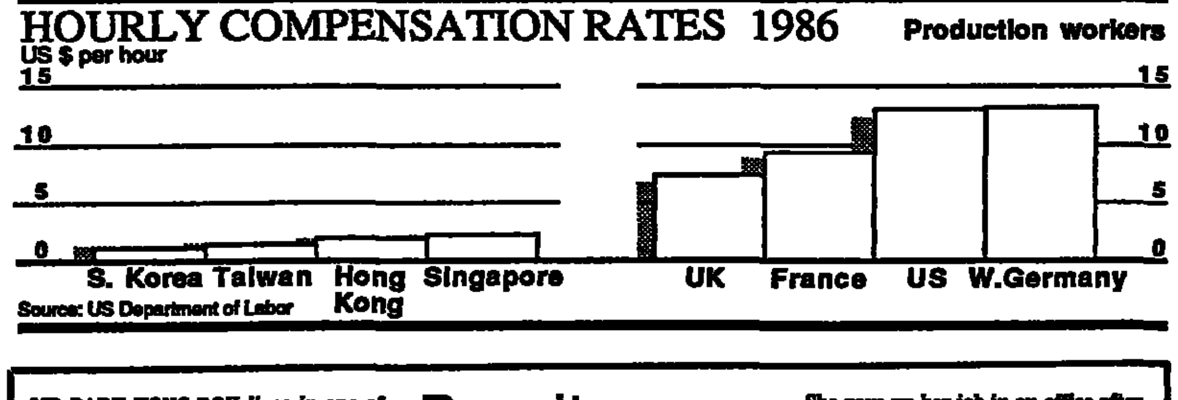
Of the major Korean companies, Mr Rhee says that his preference had always been for Samsung, because it is the most professionally run and there is a lot of decentralisation. Contrasting the family control of most of the other companies, he says Samsung is the one "where an executive with no personal ties to the chairman can have a meaningful job to do."

Under Samsung's management system, the performance of the 500 *senior executives* - the "directors" – is carefully monitored by the chairman's office, which is expected to send him a personal report every six months. There are also meetings on a regular basis depending on their seniority. The presidents of group subsidiaries gather with the chairman for a lunch once a week. A newly appointed director might expect to lunch with the chairman twice a year.

Mr Rhee was appointed a "senior director" early this year. This opens up the possibility of his being named to run the new European regional office that Samsung Company is likely to establish this year, or of a senior position in Seoul.

He leaves little doubt that in career terms his preference would be to return. "A senior director should be in his company's head office, rather than in a remote post," he says.

HOURLY COMPENSATION RATES 1986



Results of company loyalty

MR PARK YONG-ROK lives in one of those large apartment blocks that rise out of the Korean landscape like military barracks. During the winter months, cushions and covers are spread out across the heated floor of his two-room *flat*, in the traditional style of a Korean house.

With his wife and three sons, now aged 18, 17 and 15, he moved into the apartment six years ago, taking out a Won 3m government loan which is repayable over 20 years.

Wage increases over the period have much reduced the burden of repayment so that the Won 30,000 monthly installment now absorbs only six per cent of his Won 500,000-a-month salary.

Mr Park has lived all his life in Suwon, a fast growing industrial town about an hours train ride to the south east of Seoul. When he was seven the North Korean army swept through the town in its thrust south at the beginning of the Korean War. He has no memory of the invasion, though he has heard people talk about it.

Unlike most Koreans, who have a reputation for switching jobs, he has worked in the same spinning factory all his working life. He began on a salary of Won 6,400 a month and is now a foreman in charge of six other men. He says he does not expect any further promotion. "I don't have any great ambition," he explains, and "I know my limits."

With thick dark hair, broad forehead and narrow eyes, he looks much younger than his 43 years. Beside his wife, a large woman bursting with good humour, he is sparing in his replies.

Last year his salary rose by 20 per cent, as a result of the regular annual increase and an additional increase won during the summer strikes. But he says that with all the expenses of three children growing up, he manages to save very little. "We are a bit more squeezed than before." He adds, nontheless, that "compared with ten years ago we are much better off than we were."

Because of this squeeze, he would prefer to work longer and to earn more, rather than have more days off and longer holidays. He works a six-day week for 10 hours a day, two hours of this being paid overtime. He says the factory is too busy for him ever to take a summer holiday.

Of his three sons, two are in high school with the probability of the eldest going on to university. The third son has been a little mentally retarded from birth. Clothing them, feeding them, providing them with pocket money and paying the nominal school tuition fees absorbs over Won 100,000 a month.

Though the flat is small, it is comfortably furnished. The cushions and covers that are spread on the floor can be tucked away in a large black, mother-of-pearl-inlaid cupboard which dominates the main living room. There is a television and video, both also paid for on credit, and other mother-of-pearl ornaments on shelves.

Despite the barracks-like appearance of the building, their is a friendly atmosphere. Most of the tenants seem to know each other. Mrs Park says that there is a neighbourhood association and that the wives are on "very good terms."

She gave up her job in an office after their first child arrived. At that time they rented an even smaller apartment, having spent the first years of their married life living with their parents.

When the children were smaller, Mrs Park says, it was she who used to help them with their homework. Now it is too difficult for her and all she can do, she adds laughingly, is to try and make them work harder.

Her ambition, if there was a little more money, would be to move into a larger flat. That would have precedence over buying a car or a small pick-up truck.

Mr Park has his eye more on the pick-up truck, because when he retires in ten years time, as he will have to when he reaches 55, he would like to return to farming

Since the labour disputes in the summer, the atmosphere has changed at the factory, he says. "It is much more democratic. The management is less authoritarian and more concerned with the welfare of the employees. We also get a longer break during the day."

Jobs have been replaced by the introduction of more automated machinery, he says, but nobody has been forced to leave because output has also expanded.

In past elections, Mr Park has tended to vote for opposition candidates. But in the presidential election, he voted for Mr Roh Tae Woo, as representing what he calls "a chance for stability."

Mr Park fears that Korea is becoming too Westernised, with a rising divorce rate. But he favours the Korean market being opened up to more foreign imports because he believes the quality of Korean products will improve through greater competition.

Boom fails to help Taiwan's have-nots

EVEN BY Taiwan standards, the boom of the last two years has been exceptional. But Mr F.P. Ou, a good humoured after sales technician for a Japanese paint manufacturer, feels that the good times have passed him by.

When he looks round at the low pay and long working hours of many of his friends and relatives with jobs in small, local companies he does not have much hope that conditions will improve.

Married with two children, Mr Ou lives at Chungli, a new industrial town built beyond Taipei's international airport to attract multinational and export oriented firms dependent on fast transport.

Like many of Taiwan's cities, it looks like a transit camp – a ramshackle mixture of factory sites and cheap housing that reflect Taiwan's former uncertainty about its economic future.

Mr Ou and his family live in a simply furnished three-roomed flat in a street where the other side has been left as a virtual rubbish dump.

Mr Ou's present situation is a curious one – reflecting the abrupt changes that have been brought about by currency shifts. As the after sales technician for Nippon Paint, he has a good and moderately well paid job with a salary of NT$ 20,000 a month.

Nippon sells industrial paints for use on containers, and Mr Ou is expected to provide a round-the-clock service for customers needing advice.

He has no fixed annual leave, but since the rise of the yen in 1985, Nippon's sales have slumped so that Mr Ou says that effectively he has had 10 months off in the last year.

Though he has continued to draw his salary, he has had no pay increase or bonus for two years.

He would like to leave and dreams of starting his own business. But with a family to keep and rent to pay, he does not dare take the plunge. For the moment other jobs that he might be offered would be unlikely to pay more and the hours would be much longer.

His own family comes from Kaoschiung in the warm south of the island. He does not like Chungli because the "weather is humid and the schooling facilities for children are poor."

Mr Ou has a two-year-old daughter and a ten-month-old son.

He pays NT$ 3,500 in rent for his flat, which is part of a block owned by an investor who also has hotels and property in Taipei.

In the main room, there are three chairs and a sofa, an old TV set, no video recorder and few ornaments. Unlike many other flats in the same building, the Ou's do not have a family shrine in their living room.

Children's toys lie scattered on the floor and dinner plates are stacked ready for washing up. Mrs Ou stopped working on getting married – she had a job as a clerk in a lawyer's office – and stays in the background while her husband does the talking.

Now 34, Mr Ou left school at 19 hoping to get a job on a ship. He ended up instead repairing containers – which provided the link to his present job where he has been for just over four years.

A quiet, softly spoken man who was initially reticent to express his views, Mr Ou believes that statistics of Taiwan's rising national wealth give a misleading picture of how most workers actually live. "The owners have made the profits," he says. "We have not enjoyed much of the benefit."

In companies where his friends work, management push employees to the maximum. "In very large firms, perhaps things will change," he says. "But in small companies, I don't see this happening. And Taiwan has a large number of small companies."

Sceptical of the real significance of the lifting of martial law in 1987, he thinks the most far reaching change introduced by the Government was in allowing Taiwanese to visit their relatives on the mainland.

"That was an important move," he says, adding that he would like to see a further improvement in relations with mainland China.

HYUNDAI

The newcomer goes into overdrive

By 1990 the Korean car industry is likely to be turning out 1.4m vehicles annually, a fivefold increase over production in 1985

THE WORLD car industry does not welcome newcomers. Over recent years, once famous groups have been broken up or disappeared like British Leyland, Simca of France or American Motors. But since the Japanese first attacked the US market in the 1960s, there have been few new global competitors.

Circumstances have admittedly not been favourable. Production of cars in the industrialised countries has stagnated. The US, Japan and Europe could face an excess capacity of 6m units a year by 1990.

One of the few new entrants to brave this cold climate has been Hyundai Motors of South Korea. While other car makers have suffered from sagging sales, Hyundai has raised production tenfold to almost 750,000 cars annually in the last six years

Like the Japanese car manufacturers it has also attacked the US market in its search for global status. But it has done so with better quality cars than Nissan or Toyota exported in the early 1960s and built up market share far more rapidly.

Mr William Overholt, a senior economist with Bankers Trust recalls that "Nissan was so ashamed of the first car that it exported to the US that it called it a Datsun. It was technologically far behind US vehicles. It did not even have the power to function on the freeways. The heat from the engine went into the car."

By contrast, in 1986 Hyundai achieved record first year sales for a foreign company in the US, as it had done in Canada two years earlier.

Like the Japanese car makers in the 1960s, Hyundai is now benefiting from the growth of a mass car market in Korea. Car sales at home are currently rising at an annual average rate of 25 per cent compared with the 30 per cent at which car sales in Japan climbed after the Tokyo Olympics of 1964.

Hyundai's export success and the rapidly growing domestic market have spurred Korea's two other car makers, Daewoo and Kia, to accelerate their expansion plans. Their combined production has jumped from under 50,000 two years ago to 252,000 last year.

By 1990 the Korean car industry is likely to be turning out 1.4m vehicles a year, a more than fivefold increase on 1985 output.

This section is not a portrait of Hyundai. It is an account of how a developing country's car manufacturer entered the world market, and of the problems that it now faces.

Though Hyundai's success has drawn heavily on Japan's experience, the Korean manufacturer is a much more family-dominated and risk-taking conglomerate than were its Japanese predecessors. Until his retirement last year, it was presided over by the towering figure of 72-year-old Mr Chung Ju Yung, who still exerts a powerful influence on the company. Seven of his sons and two brothers hold important posts in the company, including Mr Chung Se Yung who now heads the motor group.

Mr Max Jamieson, the American responsible for Hyundai's marketing in the US, puts Mr Chung Ju Yung on the level of the "Firestones and the Fords" in his capacity to think and plan on a large scale. In Korea, he has become something of a popular myth as a self-made man who still lives a simple life. But as a manager he is remembered as an autocrat.

The style of the Hyundai group is that of its founder. It plunges into new activities with the abruptness of a buffalo charge. It turned up as an unknown construction company in the Middle East, after the first oil shock, to emerge as one of the world's largest construction companies.

It pushed its way into electronics by purchasing a US company in California, but ran into such a battery of problems that it was soon forced to sell. It always manages, like most of the Korean *chaebol* (conglomerates), to keep at least one "cash cow" in existence to buttress other activities that might be in difficulty. At the moment, in a group that has total sales of about $14bn, Hyundai Motors, the car company, is the "cash cow", while shipbuilding and construction barely break even.

The decision by Hyundai to try and break into the US market with a newer version of its low-cost, subcompact Pony car was finalised in 1981/82. The circumstances could not have been less propitious. The car company, which had been set up in 1974, had experienced three years of continuing losses from 1979 to 1981. Production (mostly for the domestic market) which had reached a peak of 71,000 in 1979 had almost halved in 1980 as the economy moved into recession, and had only climbed back to 76,000 by 1982.

The recession, provoked largely by President Park Chung Hee's over hasty expansion of Koreas heavy and chemical industries, had hit Hyundai's other activities. Hyundai International's giant machinery and power equipment complex had been taken over by the state in 1980 after running up massive losses. The shipbuilding yards were hankering after work. Only the construction arm, benefiting from the rise in Middle East oil revenues, was handsomely in profit.

Worldwide the car industry was also suffering from a slump. US car production had dropped below 8m in 1982 and Europe was still in a trough.

Anybody visiting Hyundai's plants at Ulsan on Korea's south-east coast in the those years saw a company in which ambitions far outstretched order-books.

"We are leaders now because we took decisions to invest when we were making losses," says Mr S.W. Chon, executive vice-president of Hyundai Motors. "As the equipment manufacturers had no work, we got much of the machinery at half price. We particularly bought from Japan, prices were so low."

In retrospect there were other factors that justified the risk that Hyundai took. The 2.3m ceiling imposed in 1981 on Japanese car imports into the US pushed Japanese makers towards exporting higher-priced cars with more value-added, therefore leaving an opening for a new entrant. According to Mr Jamieson, the ceiling also helped Hyundai by raising the price in the US of sub-compact cars by 25 per cent over two years.

At the same time the Korean Government had intervened to reduce excess capacity in the country's car industry. Of the three manufacturers then in business it ordered Kia to quit car construction, a decision not reversed until 1984.

With equal high-handedness, it told Mr Chung Ju Yung of Hyundai and Mr Kim Woo Chong, chairman of Daewoo, that their rivalry in the automobile and power equipment industries was counter productive. They were asked to choose the sector on which they would focus. Mr Chung chose car making.

That meant that in financing his investments he could count on the Government, acting through the banking system, to steer his way the

Strong domestic market is boosting expansion plans

loans he needed. By 1983, Hyundai was launched on it first major expansion that would double manufacturing capacity to 300,000 by the following year.

At that stage, Hyundai was a company deeply dependent on foreign technology and management assistance. Mr George Turnbull, the former managing director of British Leyland, had helped set up the Ulsan plant in the 1970s when the Pony had looked more like a Morris Marina. The restyling of the Pony and then its transformation into the Excel, the name under which it was launched in the US, was done by Giorgio Giugiaro of Italy. But the main contribution came from Japan.

Mitsubishi provided under licence the fuel efficient engine, the front-wheel drive and the gearbox. It also helped lay out the plant and design a production system.

"Mitsubishi taught us both the technology and how to organise production," says Mr H.B. Suh, the official spokesman at the plant. By 1984 the Japanese company had taken a 7.5 per cent stake in Hyundai Motors which it later raised to 15 per cent.

Hyundai began its attack on the North American market by a trial run in Canada. The choice had obvious attractions. Mr J.B.Lee, deputy general manager, says that Hyundai's research had uncovered in 1984 a potential US$2,000 to $3,000 gap between the price at which Hyundai's could sell and that of its nearest competitor. Canadian prices for sub-compact cars had been pushed up by restrictions on Japanese imports. Besides Canadian standards on exhaust control and safety were less stringent than those in the US.

Hyundai thought it would sell in the first year between 5,000 and 10,000 cars, which was the level then being reached by Mazda, Subaru and Volkswagen. Instead it sold 50,000 cars in 1984 and 80,000 the following year. By that time other car makers had adjusted their prices and Hyundai's sales fell back to 50,000. But the unexpected scale of its success had removed any remaining doubts Hyundai had about tackling the US market.

Mr Jamieson had been watching Hyundai's experience in Canada with "much curiosity," as he now puts it. He had been with Toyota in the US for 15 years before he was approached by "headhunters" hired by Hyundai to take charge of the Korean company's US marketing operation. He visited Hyundai's plant at Ulsan for the first time in November 1984 and came back "confident that nothing could hold back this company."

Mr Jamieson brought with him from Toyota two firmly held convictions. The first was that what accounted for the Japanese breakthrough in the US market in the late 1970s had been quality. He thus argued for a host of small changes, to improve the trimmings and performance of the car, on the grounds that for the Excel quality and price were the key factors, "but in that order."

His second conviction was that the car should be given a high profile by being distributed exclusively through salesrooms that handled only Hyundai.

The strategy of a distributor network with a small number of high volume dealers, each with the resources to make a substantial investment in facilities, servicing and training, proved successful. Each dealer spent on average a hefty $2.7m on equipment and facilities, with three-quarters of them building new display rooms.

In 1985, Hyundai had set its sights on first year sales of 100,000, "which many leading analysts told us could not be done," says Mr Jamieson. That year Hyundai's US sales totalled 168,000 – thus setting a record for first year car imports into America. With its cars retailing at between $5,000 and $7,000, it uncovered a new market among former second-hand car buyers, young wives and college graduates.

By the end of last year, car output by the company had climbed to 700,000, of which exports were 73 per cent compared with only 40 per cent four years before.

But Hyundai's success had brought with it both increased competition and other problems. US car manufacturers responded to the challenge in the low-end of the car market by extending their global car making operations to Korea. They turned to Hyundai's rivals to build for them low-cost cars that would compete with the Excel.

General Motors contracted Daewoo to make the LeMans which was designed by GM's German Opel subsidiary and marketed in the US by its Pontiac division. The car was an instant success, with first year American sales of 100,000 in 1987.

More important for Daewoo, the LeMans gave it a new model for sale in Korea. Sales of the LeMans last year outstripped those of the Excel by almost two to one, thus enabling Daewoo for the first time to eat into Hyundai's market share.

Ford likewise contracted its new Festiva model from Kia, the third Korean automobile manufacturer which the Government decided in 1984 could return to car making. Marketed in Korea as the Pride, the model achieved first year US sales of 38,000 in 1987, equivalent to 15 per cent of Kia's domestic market.

Hyundai's advantage over its two Korean rivals, however, is that it does not suffer from the notoriously low margins that go with an Original Equipment Manufacturer (OEM) relationship.

Mr Geoffrey Wilkinson, in the Tokyo office of Salomon Brothers, the US financial services group, reckons that Kia's exports to Ford will account for a third of its total unit

Success has drawn upon Japan's experience

sales this year. But because the margins on OEM work are so slim, the Ford exports will only account for 15 per cent of Kia's total earnings.

In addition to its two Korean rivals, Hyundai now also faces competition from US and Japanese manufacturers (including Mitsubishi) getting low-cost, sub-compact cars built in Thailand, Taiwan and Malaysia on the same kind of OEM arrangements that are working successfully in Korea.

At the same time as broadening their relationship with Kia and Daewoo, Ford and General Motors dealt a blow to Hyundai by accusing it of dumping vehicles in Canada, and taking it to court. The Canadian tribunal initially imposed a surcharge on Hyundai imports of 31 per cent. This was later rescinded, but Hyundai took the move as a warning against further penetration in the US market.

Mr J.B. Lee believes the maximum that Korea can export to the US, without running into formal restrictions, is 1m vehicles a year, as against the 2.3m ceiling on Japanese imports. When Daewoo and Kia have completed their current expansions plans, the three producers individually will not have much room for further US growth.

In an effort to avoid protectionist pressures in America, Hyundai is building a 100,000 units capacity plant in Canada, of which a third comes on stream this year. But with the high cost of producing in Canada, it seems to be heading for a loss. Foreign cars made in Canada are required to have a minimum local content of 50 per cent if they are to pass duty free into the US.

Hyundai officials say that even with only a 30 per cent Canadian content they will have trouble in breaking even.

The company's margins were being squeezed as well by the rise in the yen which raised the cost of imported Japanese components.

Costs had also been pushed up by a factor that Hyundai had not foreseen – the labour unrest in the summer of 1987. It was an obvious target as a large company with an authoritarian management which had resisted the setting up of independent trade unions.

Mr Chung Ju Yung had at first favoured a tough response to union demands at the car plant for a 30 per cent wage increase. Finally the company agreed to a 19 per cent rise in addition to the 7 per cent they had already granted in the spring.

Afterwards Mr Chung told friends that the group could absorb the pay increases. But what he had feared – and what would have been damaging to Hyundai and the other *chaebol* – was political instability. The group had been hoping to limit pay rises this year to 10 per cent but in early June workers were claiming much more. But as a result of a further dispute the plant was closed for much of June and workers were demanding much more.

The lesson Hyundai drew from the strike was that it needed to automate more to raise productivity. But the strike had also shown its vulnerability in another way. Though the actual stoppage at the Hyundai plant had only lasted a few days, the plant had been effectively shut for a longer period. This was because it had left itself dependent, for certain key components, on a limited number of suppliers. Unrest at one of these could thus shut the Hyundai plant.

All these factors weighed heavily on what was the next major decision for Hyundai, whether to expand capacity by another 300,000 units. Already the company, with an annual output of 700,000 cars, was in volume terms about half the size of Fiat or Renault, but larger than Fuji, Daihatsu or Isuzu of Japan.

Mr S.W. Chon said: "Our next target is 1m. But we don't know when we can reach it." Hyundai's own uncertainties and the pressures of the Government made for hesitation.

On the positive side was the rapid expansion of the domestic market. The Government had anticipated that car sales in Korea would reach 350,000 in 1987. Instead they climbed to 420,000 and are expected to reach 600,000 this year. "Over the last 20 years people have been buying houses," says Mr Chon. "Now they want to buy cars. It is the same pattern as Japan. They can't find privacy at home, so they drive to the country. And the countryside is quite beautiful."

In response to the growing popular demand for car ownership and to give the domestic industry a boost, the Government was planning to cut taxes on cars. In 1987 taxes on a Korean produced car doubled its price, and in the case of an imported vehicle tripled it.

Hyundai wanted to expand its domestic sales both to halt that decline and reduce its vulnerability to protectionist restrictions or slowdowns in export markets. Mr Chon described the 70:30 ratio of exports to domestic sales in 1987 as "risky."

He said that conditions in the world automobile industry were so uncertain that Hyundai needed a "local base of at least 50 per cent of sales to be safe."

But the Government seemed to want other car producers to expand ahead of Hyundai to reduce its dominance of the car industry.

If Hyundai had to worry about its domestic rivals, it had little to fear from foreign competition. The Korean market had officially been opened up to foreign cars of above 2,000cc in July 1987 and then – in a gesture to the US – to cars below 2,000cc in the Spring of 1988, thus bringing forward by a few months the scheduled date.

Actual imports, however, amounted to no more than a trickle. Foreign cars purchased in Korea were three times their ex-factory price. Koreans considered them too expensive, and many thought as well that it would be disloyal to buy them.

Another factor that argued for early expansion was that Hyundai needed to diversify its exports away from the US. In particular, its ties with Mitsubishi opened the possibility of entering the Japanese market. The two East Asian car makers already had limited joint production arrangements. Hyundai was looking to Mitsubishi to distribute the Excel in Japan.

But a further major expansion was a heavy drain on the group's finances at a time when there were more pressing calls. Hyundai's net profits rose by 23 per cent last year to Won 47bn ($58.7m) on a 50 per cent increase in sales to Won 2850bn.

But investment had been absorbing $500m a year. Hyundai Motors debt to equity ratio remained high at 5:1. And the Government was attempting to restrict fresh credits by the banking system to the *chaebol*, in order to diminish their dominance over the economy.

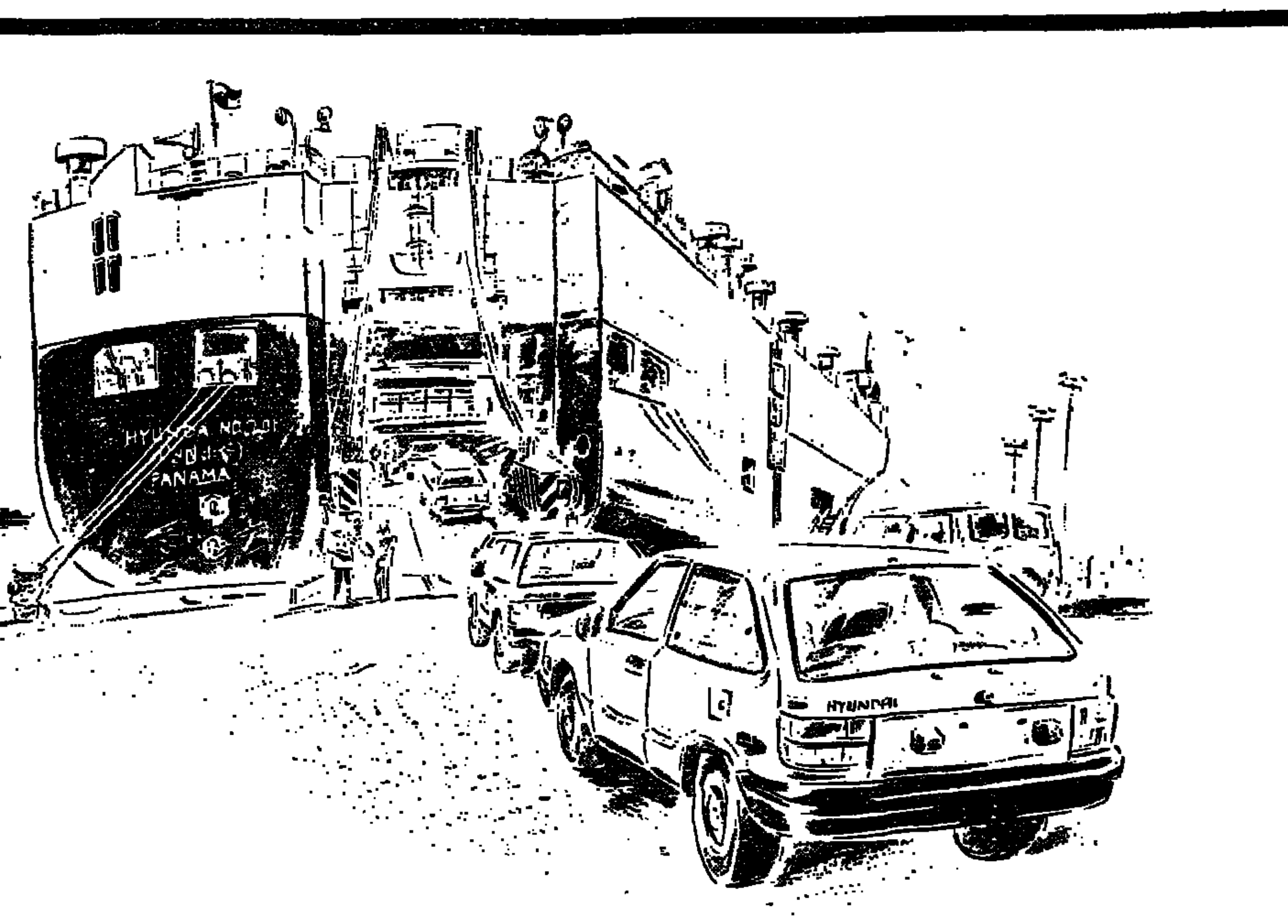
Hyundai was aware that its major weakness as a global contender was that it lacked the model range of its competitors and was too dependent on them for its technology.

It had thus been investing heavily to strengthen its own design and development capability.

The new 1.8 to 3 litre Ford Granada-sized car, the Y2, that it is to bring out this year will thus have a far greater Korean content than other models. By the end of next year it plans to replace the Pony (now largely confined to the domestic market) and in 1990 to introduce a 1.6 litre car to take the place of its existing middle-of-the-range Stellar. It also intends to bring out a new sports model.

But all these capital outlays on developing new models and strengthening the company's indigenous technology have been competing with funds that could be used for capacity expansion. Hyundai thus finds itself at something of a turning point.

The first injunction in the company's credo is: "To create something out of nothing through a pioneering spirit." Hyundai Motors has done that. The problem is to decide where to go next.



A company tie that binds union and management

A HYUNDAI employee who is surprisingly confident that last summer's turbulent strikes will not set a pattern of labour unrest at the Ulsan-based car plant is the head of car workers' union.

"We do not want recurrent strikes and disputes," says Mr Young Bok-lee, president of Hyundai Motor Workers' Union. He predicts that while it took Japan ten years to establish industrial peace after a period of bitter confrontation between labour and management, Korea will get to the same stage in three years.

Mr Young is one of the new, Japanese-style union leaders on whom authoritarian managements like Hyundai's are counting on to prevent a repetition of last year's strikes and to restore labour discipline. He has the tough, military good looks of a soldier and was once a corporal with the Korean forces in Vietnam.

As the head of the official company union, he works out of a large opulently furnished office close to the plants' main gate. His authority was brushed aside by the independent unions that sprang up last summer and which called for pay rises of 30 per cent, an amount Mr Young considered excessive.

He defines the union's aims in terms which are no different from those of the management. "The goal of the workers is to catch up and overtake the Japanese," he says. "Already we are making inroads into their share of world markets."

He believes that Hyundai needs to automate further to expand exports, and hence eventually, jobs. But he accepts that in the meantime there may have to be cuts in the size of the workforce. "If automation brings some temporary difficulties in terms of job losses, we can accept these until we catch up with the Japanese," he argues.

Prior to the 1987 strikes, Hyundai had refused to recognise a union. The only form of worker representation had been through a company-organised labour representation council, of which Mr Young was the chairman over the previous four years. He had also been a member of the semi-official Federation of Korean Metal Workers which lost credibility with the workers after endorsing former President Chun Doo Hwan's initial refusal to proceed with more democratic reforms.

Apart from pay, one of the major demands of the Hyundai workers was for more democratic union representation. Hyundai instead set up its own company union on July 25 and Mr Young was "elected" President. Some of the more militant, independent union leaders were arrested, though Mr Young says he knows nothing of this.

He claims that the real situation at the plant during the strikes was much less serious than portrayed in the Western press. Company officials declined to arrange a meeting with Mr Young on the grounds that he did not want to see Western journalists because of the reports that appeared at the time. The conversation with him in his office therefore took place without prior appointment.

Under Korea's new labour laws, there can be no more than one union in each company. The Hyundai Motor Workers' Union is as a result the only one officially recognised by the company.

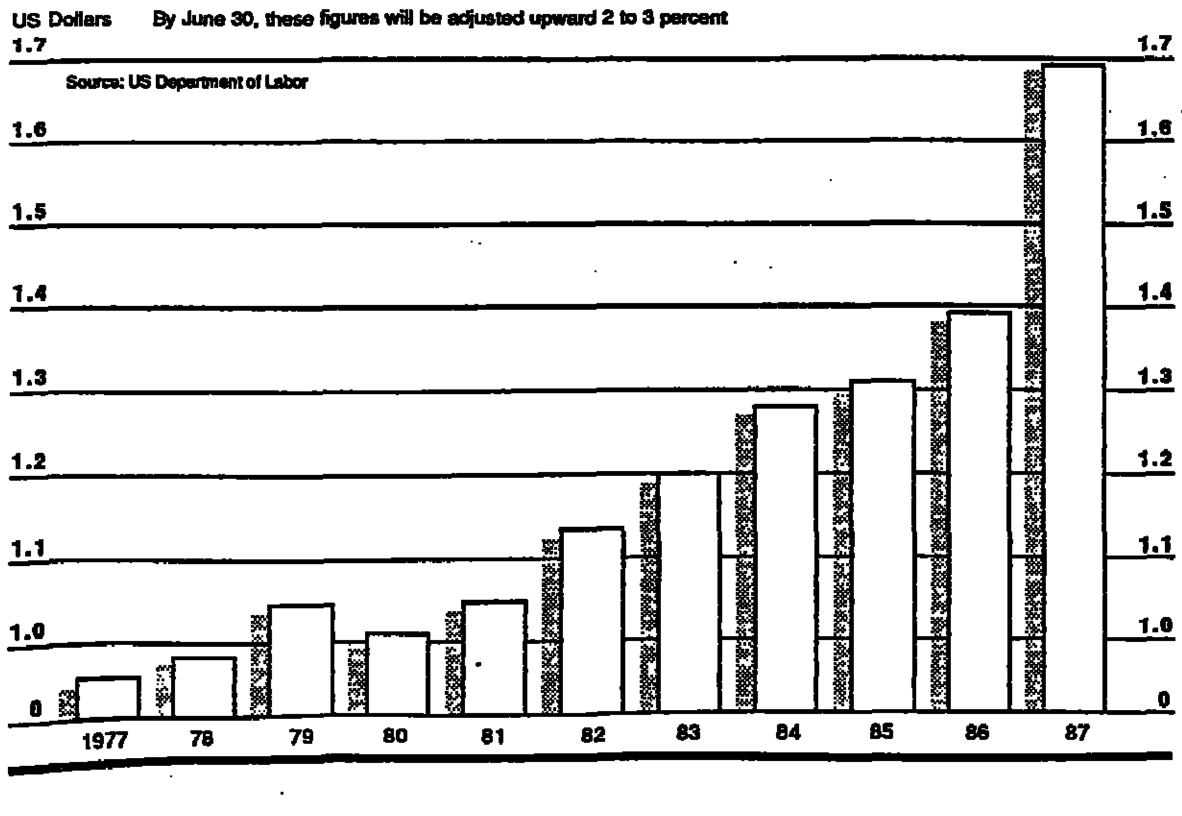
Mr Young sees his immediate task as encouraging an understanding of trade union membership rather than fostering "sabotage and strikes." The union will initiate collective bargaining with the management over the terms of an employment contract. Up to now the management has determined these single-handedly.

Within the framework of these negotiations, Mr Young plans to seek a reduction in Saturday working. Hyundai car workers currently work an eight-hour day on Saturday as part of their 60-hour week. Mr Young wants to get official Saturday working reduced to four hours. But he adds that it would be open to anybody who wants to work longer.

He sits upright at his desk with his hands clasped in front of him. He joined the company in 1975 and worked for several years as a machine grinder before getting involved in labour affairs. A line of flags behind him suggest that running Hyundai's union is not too different from the army life that he knew before.

SOUTH KOREAN PRODUCTION WORKERS' HOURLY RATE

US Dollars   By June 30, these figures will be adjusted upward 2 to 3 percent



Ulsan scales the heights of self sufficiency

SUPERFICIALLY, the Hyundai Motor company's Ulsan plant is much like many other modern car factories in Europe, Japan and the US. It is a combination of labour intensive production and new technology. The differences are in detail – and in scale, writes Ray Hutton.

Hyundai's single car plant, the biggest in South Korea, is huge, both in area (931 acres) and output (700,000 cars and 34,000 commercial vehicles in 1987). Cars for export are loaded on to Hyundai-built ships directly outside the factory.

It is also more than usually self-sufficient, with foundry work, forging, tool-making, component machining, and gear cutting taking place on the same site as car, engine and transmission assembly.

Some 45 per cent of the parts that go into a Hyundai car are made in the factory and a total of 70 per cent is sourced within the Hyundai group. Parts supply is direct to the production lines, though this is not quite as frenetic as the Japanese "just in time" system; Hyundai can hold one and a half days of stock in the works.

Compared with modern Japanese car factories, Hyundai's two S-shaped final assembly lines lack evidence of quality circles, suggestion systems, or much worker participation in how the cars are made. The pressing, welding and metal finishing areas have notably fewer machine guards and worker safety facilities than a UK factory would demand.

The workforce is young (70 per cent of employees are in their 20s) and, by international standards, cheap (the average wage is just over Won 500,000 – $564 – a month for a 60-hour, six-day week).

Worker productivity is high, with 27,800 people making 617,000 vehicles per year, and Hyundai is fully aware that low-cost production is the key to competitiveness in world markets. "Now we will have more automation, for we must be very careful about increasing manpower as we expand," says Mr S.W.Chon, vice president of the company.

For the moment, one senses that the robot welders in the bodyshop are less for higher productivity than to maintain consistent quality standards. Hyundai has made big strides in that direction but Mr Chon admits that it has not yet attained the Japanese level. "The last three to four per cent on the quality audit is difficult," he says.

As part of the drive for improved the quality and finish of vehicles, a $38m paint plant was installed in 1986.

The Ulsan complex continues to grow. An automatic transmission factory will be ready this autumn. This reflects the company's ambitions to build more up-market models, and the appreciation of the Japanese yen which has made imported transmissions from Mitsubishi too expensive.

The establishment of an elaborate research and development centre at Ulsan shows Hyundai's serious intention to become more independent in engineering. Some 1,500 people are employed in R&D, plus another 300 in an engine development centre near Seoul.

The R&D facilities would be the envy of many of Europe's smaller car makers. Apart from the usual exhaust emissions laboratories, climatic chambers and crash test rigs, researchers have the latest in laboratory suspension testing equipment as well as a well-equipped proving ground, including 48 kinds of road surfaces. A wind tunnel for work on aerodynamics is also planned.

Computer-aided design equipment is being introduced, and the Hyundai design studio is planning all-Korean models.

The forward plan calls for a further expansion of production with the eventual aim of 1m vehicles a year. Currently, 75 per cent of Hyundai's production is exported. But it expects a home market increase in the next few years and is aiming at a 50:50 split between export and domestic sales.

Somewhat reluctantly, Hyundai Motor has already found itself acting like a multinational, by building a 100,000-a-year assembly plant in Canada to placate those who are uncomfortable about the remarkable sales success of Korean cars in America.

WOMEN

A powerful force for reform

There will be increasing demands for female representation in government and more opportunities within business

THIS REPORT has argued that East Asia is passing through a period of unprecedented change. Dr Eileen Aw, head of Singapore's Social Development Unit (see accompanying article) would also add that women have been a powerful force for social reform.

She sees women as more welcoming to Western ideas than men, because they have an interest in breaking down the traditional, patriarchal values that for a long time kept women in an inferior role in Eastern societies.

Men by contrast, have shown their conservatism in their reluctance to amend the inheritance laws, to open up to women the same job and pay opportunities or to abandon those domestic privileges that work to their advantage.

Men still want their wives to do the Eastern equivalent of "putting out their bedroom slippers," says Dr Aw.

As in Japan, the pressure on men will grow. There are almost as many girls as boys in secondary school and university. Almost one woman in two works in Taiwan and Korea, while in Singapore there are almost as many women working as men. They will increasingly demand that women be represented in government and that the senior posts in companies are open to them.

Men will be expected to share responsibilities instead of returning home drunk at midnight

In Korea, there was only one woman in the last National Assembly of 276 members, though a woman stood as candidate in the December Presidential election. In Taiwan there are no female Ministers and the most senior woman in the administration is Dr Shirley Kuo, the economist and deputy Governor of the Central Bank.

East Asia's women will also want men to share household responsibilities rather than returning home drunk at midnight after carousing with their office colleagues, as happens in Korea.

But if women have more interest in the Westernising of their societies, they have also found the social upheavals of a period of high pressure economic growth more difficult to handle.

"Our societies have compressed into 20 years what the West accomplished in 200," says Dr Lee Tae-yong, head of the Korean women's organisation that has campaigned most for changes in the family law. "We have had thrust on us all the contradictions of modern civilisation and we were not ready for them."

Between the subservience of their traditional role and the aggressiveness demanded of a modern urban society, between the pressures of family and of work, between achieving high levels of education and finding society does not want to make use of their potential, women are uncertain which way to turn.

Consider, for example, these two examples of their discomfort:

- In Singapore graduate women have difficulty in getting married because men still stick to Chinese traditions of marrying women with less education than themselves. But women outnumber men by two to one at Singapore University (because women work harder and do better in the language exams that are key hurdles in climbing up the educational ladder). Thus 39 per cent of female graduates remain single.
- In Taiwan, a married woman can continue her career. But what she earns is managed, invested or spent by her husband. If she buys a house, her husband can rent it out without consulting her. In other words, says Yu Mei-ni, a Taiwanese lawyer, the husband's position is: "What is mine is mine and what is yours is also mine."

Both the legal situation and the status of women are improving steadily. There are, in any case, wide differences between one country and another. In mainland China, women hold senior positions in government as well as doing back-breaking jobs such as road building. In Taiwan, the growth of women's rights movements was delayed in part because of the isolation of the country.

"A tremendous influence on Taiwan was that for years it was out of the international circuit. We were not affected by international movements like the UN decade of women," says Professor Chiang Lan-hung (Nora Chiang), co-ordinator of the Women's Research Programme at Taiwan National University.

In Hong Kong, women slot into top executive jobs as they might do in the US. Hong Kong men, however, often find their countrywomen too independent and aggressive, and go to Taiwan to look for their wives. Meanwhile, in Singapore, women in their twenties are generally more mature, more socially at ease and more experienced in their jobs than men of the same age. In part this is because the men have had to spend two years doing military service.

The subservient role of women, most noticeable in Japan, Korea, and Taiwan, has its roots in Confucian culture. An old Korean proverb says that: "When a girl marries and is about to live with her husband, her mother gives her a stone saying 'even if your husband and mother-in-law provoke you, you only open your mouth when the stone starts to speak.'"

Women were expected to be obedient to their husband's family, to bear him sons, not to gossip, and not to be jealous of his concubines. In family life, the relationship between husband and wife had second place to that between father and son.

Although there have been numerous revisions, Korean family law still gives much power to the male head of the family. He keeps the family register on which children must be inscribed to be recognised by the law. Currently he can register any child of his as a legitimate child of himself and his wife without asking her permission.

Under Taiwanese family law, the husband gets custody of the children in the event of a divorce. In a recent case which came before the courts, a husband got another woman to adopt his child. The mother sued for custody but the court ruled against her.

Behind these legal dispositions, the realities of family life still reflect male dominance. Go to dinner in a Korean household and you will often find that while the male guests eat and drink, the wife is serving them or preparing the next dishes. Korean men, like Japanese, do much of their business in noisy drinking sessions in the evenings.

The unengaging nature of brain power

TRADE AND ECONOMICS

Shocks form basis of prosperity

The newly industrialised countries have been forced into a series of policy reappraisals that have paved the way for rapid growth

EAST ASIANS tend to see their growing post-war prosperity as having been shattered by a series of thunderclaps that have shaken the established order but prepared the way for a fresh initiatives.

Every Japanese remembers the depreciation of the dollar in 1971, as every Taiwanese remembers 1978 as the year which brought US recognition of mainland China. Policy makers throughout the region remember the difficult policy reappraisals that followed the two oil shocks.

The years 1986 and 1987 have been marked by two other shocks with long-term consequences as equally profound. There has been the "democracy" shock – the popular reaction against authoritarian rule that made itself felt in different ways in the Philippines, South Korea and Taiwan, and which could make life uncomfortable for the currently heavy-handed administrations in Singapore and Malaysia.

There has also been what might be called the "surplus" shock, the unexpectedly dramatic turnabout in the Asian newly industrialised countries' (NICs) balance of payments position, that has brought them under international pressure to change their economic and trading policies.

For the two largest countries, Taiwan and Korea, such changes require a fundamental shift. They must change from societies that are still partially closed to the outside world, geared predominantly to working, saving and exporting, to societies that are more open, and give more priority to raising living standards, environmental protection and consumer choice.

The political shock is the subject of the next section of this report. Meanwhile, this section looks first at the way governments are handling the changes in economic policy, and then at East Asia's changing export markets.

The political and economic changes are closely linked in that both reinforce the shift towards societies that are more liberal, more decentralised and more integrated into the world's trading system.

In both cases, as well, a powerful factor for change has been the growth of a professional and technocratic middle class which welcomes less government interference, more competition, a larger role in decision making and more freedom to spend its money on imported goods and travel.

East Asian governments, the major industrialised countries and international institutions like the International Monetary Fund (IMF) were all caught off balance by the speed at which the NICs built-up their current account surpluses.

Apart from Taiwan, which had started running surpluses in the early 1980s, all the other countries had either been in deficit or narrowly in balance until 1985.

Their combined current account surplus thus shot up from $10bn in 1985 to $23bn in 1986 and $30bn in 1987. Of this, $28bn was accounted for by Taiwan and South Korea. But Hong Kong also made a substantial contribution to the NICs' overall trade surplus with the US, which climbed last year to $38bn – or the equivalent of 24 per cent of the US deficit.

In global terms this was the first time that a group of developing countries, let alone a group with a combined population less than that of France, had run such a large trading surplus with the industrialised world. At $30bn the combined surplus was almost as large as that of the European Community (EC) – and this year the NIC surplus *will be the* larger of the two.

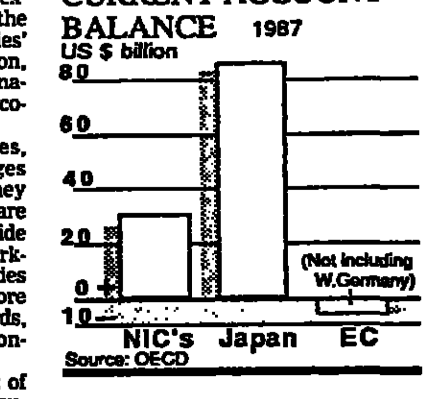
From being on the periphery of the world economy, the NICs therefore found themselves on centre stage as one of the elements in discussions on global imbalances among the world's main industrialised nations at their annual summit meetings.

The size of the surpluses also brought them under the same pressures that Japan has experienced in the 1970s and early 1980s, to open their markets, appreciate their currencies and stimulate domestic demand to ease strains on the world trading system.

"Korea is no longer a small country but a global player," says Dr Hyun Oh Seok, director of the economic policy division of the Korean Economic Planning Board. "We thus have to accept a role of responsibility in world trade."

In practice it would have been far more difficult for the Asian NICs to

CURRENT ACCOUNT BALANCE 1987



Source: OECD

resist international pressures than the Japanese did, because they are smaller, more politically fragile and their economies are more dependent on trade. Exports represent 85 per cent of Singapore's gross domestic product and 56 per cent of Taiwan's, as compared with only 15 per cent in the case of Japan.

Korea and Taiwan, as well, have taken note of Japan's mistake in depending for too long on the kind of export growth which has resulted in an unbalanced economy with too little attention being paid to housing and social welfare.

They have also been made aware that Japan's switch over the last two years to focusing more resources on domestic expenditure has been accompanied by far less pain than most people had imagined, and has given Japan a stronger growth rate than the rest of the industrialised world.

East Asian governments, nonetheless, were caught off balance by the turnabout in their balance of payments situation and the policy adjustments it required, because in 1985 they had been preoccupied with quite different concerns.

Their worries had been about low growth, flagging export demand and restoring competitiveness. They were implementing policies designed to produce surpluses not to limit them.

1985 had been a year of stagnation among Organisation of Economic Co-operation and Development (OECD) economies and East Asia had felt the effects. Growth rates for exports and national output had both been well below the average for the decade, which in turn had been below the average for the 1970s.

Singapore had been plunged into its

Continued over

Philips reinforces its global strategy with a large intake of Chinese intellect

THE YEAR 1961 is something of a landmark in the post-war development of East Asia. It was when US multinationals began to move their production bases abroad to achieve

a trend that expanded dramatically in 1985 with the rise in the value of the yen.

Few European companies took this trail, though this section looks at the experience of one of them. Even now,

Trouble with Korea in US and Europe

One motive was an access to cheap labour

Taiwan was also nervous that its television industry could be condemned by the shift to high definition, digital TV in the 1990s. Philips had the technology and was one of the leaders in the field.

ration with company headquarters in Eindhoven.

Along with this strategic tie-up in semiconductor technology, Philips has signed two other important agreements with Taiwan. In partner-

Shocks form the basis for new-found prosperity

Continued from previous page

first post-war recession. In part this was due to the Government's attempts to force industry to upgrade its technology by doubling wages over the previous six years. The experiment had pushed up industry's costs, reduced exports and frightened away foreign investors. The Government had thus cut corporate taxes and social security contributions and imposed a wage freeze to revive Singapore's competitiveness.

Hong Kong had equally had its first year of stagnation in a decade. This was the result of both the slowdown in world demand and the decision in 1983 to peg the exchange rate to the US dollar at a fixed parity of HK$ 7.80, in an effort to ward off speculation.

But as the US dollar rose in 1983 and 1984, so the Hong Kong dollar appreciated, with it eroding Hong Kong's competitiveness.

Korea had devalued the won by 10 per cent against the dollar in 1985, after allowing it to depreciate continuously since the 24 per cent devaluation in 1980. In September 1985 – the month of the Plaza agreement among industrialised nations to allow the dollar to fall further – Korea took such a gloomy view of the balance of payments outlook that it instituted new policies to save foreign exchange. These included measures to discourage consumer spending and higher taxes on business expenses.

But in addition to these short-term measures, intended to stimulate Korean exports, the focus of economic policy since 1980 had been on restoring industrial competitiveness to reduce Korea's external debt.

This had reached a peak of $46bn in 1986, the highest in Asia. Korea's competitiveness had been undermined by President Park's mammoth industrial projects in the late 1970s, which had pushed up inflation, manufacturing capacity and widened the current account deficit.

Taiwan, equally worried by low growth and a slow down in exports in 1985, was allowing its currency to fall with the dollar to gain competitive advantage. The Government had also been following policies since 1980 which had the effect of pushing resources towards the export sector and of creating a current account surplus.

Public sector investment as a proportion of gross national product (GNP) had fallen from 16 per cent in the late 1970s, when the Government was financing large infrastructure programmes, to a low of 8 per cent.

"The Government considered such public investment as an inefficient use of resources," says Professor Hwa Erhcheng of the National Ching-hua University.

At the same time, savings climbed to 33 per cent of GNP in 1985 and to 40 per cent by 1987 (when total fixed capital investment in the economy was only 22 per cent). They produced a ballooning savings-investment gap that had its counterpart in the current account surplus.

Economic policies in all four states were therefore directed towards higher export growth and achieving external surpluses when three separate windfalls occurred that much magnified the results.

The first was the fall in international interest rates which benefited Korea the most as the largest debtor of the four. The second was the decline in the price of oil which benefited all four as being dependent on imported energy.

But most important of all was the decline in the dollar in relation to the yen and the European currencies. This began in early 1985 and was accelerated by the Plaza agreement.

By following the dollar down, as they all initially did, and thus allowing their currencies to depreciate in real effective – inflation adjusted – terms, the NICs gained an immense competitive advantage over Japanese and European manufacturers, both in their own markets and the US.

In real effective terms, the Korean won depreciated by 21 per cent between the first quarter of 1985 and the third quarter of 1986, the New Taiwan dollar by 11 per cent, the Hong Kong dollar by 17 per cent and the Singapore dollar by 16 per cent.

The result was immediate and spectacular. In volume terms the growth rate of Korean exports jumped thirteenfold in 1986 to 26 per cent. Taiwan's increased tenfold to 28 per cent, Hong Kong's tripled to 14.7 per cent and Singapore's rose fourfold to 9 per cent. The trends continued into 1987 and showed the immense flexibility of Asian NIC manufacturers to exploit changes in demand or competitive advantage.

After the gloomy analyses of 1985, governments could scarcely believe that they had "hit the jackpot," as Mr Kim Mah-je, Korea's former deputy Prime Minister put it. Hong Kong got its growth rate forecasts completely wrong by predicting a 6 per cent rise in gross domestic product GDP in 1987, instead of the 13.6 per cent that actually occurred.

The Taiwanese Government continued to subsidise Taiwanese exports well into 1987, by guaranteeing to buy 90 per cent of all forward US dollar contracts at artificially high forward rates. At this time it was already embarrassed by the size of the country's export surplus.

Governments also took time to face up to some of the adverse effects of a current account surplus and an

Surplus will be bigger than the European Community's

undervalued exchange rate. A current account surplus boosts inflation through an increase in the money supply. Both Korea and Taiwan suffered the consequences in soaring real estate and share prices which made apparent the growing disparities of wealth in the two countries.

An undervalued exchange rate, by encouraging rapid export growth, can result in capacity bottlenecks and added inflationary pressures. Hong Kong, the currency of which depreciated the most in real effective terms, has seen inflation rise this year to 8 per cent and has run into the capacity constraints that come of the economy expanding by a cumulative 25 per cent over the last two years.

Large current account surpluses and unnecessarily high foreign exchange reserves are also a wasting asset for countries with still unexploited domestic investment opportunities. Taiwan is reckoned to have suffered a NT$ 300bn foreign exchange loss on its $73bn of depreciating dollar assets in 1987.

But East Asian governments have since come more to grips with the situation and are adjusting their policies accordingly. The pace of change varies from one country to another as does the emphasis on different policy instruments.

IMPORT LIBERALISATION. The most dramatic shift that has taken place – some international officials call it a "sea-change" – has been the acceleration in imports into Taiwan and Korea, the most protectionist regimes in East Asia. This reflects the recent sharp rise in personal incomes, the growing demand for foreign goods and the lowering of tariff barriers (see accompanying article).

In volume terms, imports into Taiwan grew by 22 per cent in 1986 compared with a 6 per cent annual average over the past six years. The equivalent figures for Korea were 18 per cent and 7 per cent respectively.

The change has been greatest in Taiwan where the number of imported cars is likely to double to 80,000 this year and where some private forecasters are predicting a 50 per cent increase in the value of imports, though this includes substantial gold purchases. "The protectionist mentality has gone," says Professor Hwa.

In Korea strong prejudices remain against purchasing foreign goods. "We have passed the trade-deficit stage and come into surplus," says President Roh Tae Woo. "But people don't realise our economic fortunes have changed." Officials nonetheless see import liberalisation as the major policy instrument in both curbing inflation and encouraging more competition in the domestic market

Dr Suh Sang-mok, vice president of the Korea Development Institute, concedes, however, that "we have a long way to go." Manufactured goods account for only 10 per cent of imports in both Korea and Taiwan.

In pursuit of import liberalisation, Taiwan has this year substantially reduced the unweighted average tariff on imports from just under 20 per cent to just over 10 per cent. Korea has also announced a draft five-year plan that would cut tariffs on imported goods from an average 18.1 per cent to 7 per cent by 1993.

Mr Peter Allgeier, assistant US special trade representative with responsibility for Asia, calls the plan "a very serious effort" and believes the Koreans will "stick to it".

In both Korea and Taiwan, protests have been greatest, and lobbies most active, to prevent the import of agricultural goods like beef, cigarettes and fruit.

CURRENCY APPRECIATION. "I tell businessmen most worried by the won appreciation that in five years time Taiwan could have got ahead of us because it is appreciating its currency more than we are, and becoming more sophisticated," says Kim Mah-je, South Korea's former Prime Minister.

Korea has been reluctant to let its currency appreciate – the won rose against the dollar by only 9 per cent last year and climbed by 6 per cent in the first four months of this year. This is because it fears its competitiveness is already being undermined by the recent large wage increases, and because inflation is again running high.

Korea is also nervous of repeating Singapore's mistake of using an appreciating currency to force through technological change in industry, before industry is sufficiently prepared in terms of trained manpower and research skills. Hence the sharp increase in research and development expenditures which now account for more than 2 per cent of GNP.

Taiwan has allowed its currency to appreciate the fastest. Its low-cost, labour-intensive industries, like garments, toys and footwear, have also suffered the most (see accompanying article). But currency appreciation is equally accelerating the shift of resources to higher technology products, as economists say it should. Exports of computers and data processing equipment jumped 79 per cent last year to $3.8bn.

Hong Kong, meanwhile, is the one country that has refused a change in parity on the grounds that abandoning the fixed rate with the dollar would encourage further speculation against the currency in advance of the resumption of Chinese sovereignty in 1997.

But the fixed rate has proved no safeguard against large capital inflows from speculators anticipating a rise in the Hong Kong dollar. The continuing undervaluation of the currency has also protected Hong Kong's labour-intensive manufacturing sector against the necessary industrial upgrading that is taking place elsewhere.

Singapore has modestly revalued its currency by 10 per cent against the US dollar since the Plaza agreement. This reflects the recovery of the economy, which grew by 8.7 per cent last year and is already bumping against capacity constraints.

DOMESTIC DEMAND. In both Korea and Taiwan rising wages are providing the main stimulus to domestic demand as an alternative source of growth to exports. Wages in industry rose by 19 per cent in Korea last year and are likely to rise more than 10 per cent this year. In Taiwan wage increases have also been averaging more than 10 per cent.

But the Korean Government is sufficiently nervous of the inflationary consequences that it is attempting to drain off some of the increase into higher savings. The revised five-year plan still maintains a goal of savings absorbing a hefty 33 per cent of GDP.

A still primitive banking system in Korea and Taiwan does little to encourage saving. Mortgage loans, hire purchase schemes and personal credit cards are still in their infancy.

"Consumer credit here is very insignificant," says Dr Shying Shiau-fung, chief of the industrial planning division of Taiwan's Industrial Development Bureau (IDB).

"We don't like to buy things on installments," he says, adding that in his house all purchases are made in cash.

Taiwan has nonetheless drawn up a Budget this year that for the first time claims "domestic demand (scheduled to grow by 13.4 per cent) is replacing export expansion as the major driving force behind economic growth."

Like the newly published Budget for next year it also allows for deficit financing to increase public expenditure, an almost Copernican revolution in a country that has obsessively sought to increase savings through a Budget surplus.

By 1992 the Government's aim is substantially to reduce the current account surplus by pushing up fixed capital investment as a proportion of GNP to 25 per cent, instead of the current 19.5 per cent. By this time savings will have fallen to 30 per cent of GNP, leaving a savings-investment gap of 5 per cent, instead of the 21 per cent last year.

But in practice the Government is finding it hard to increase public investment. This is partly because it has lost the spending habit. But it is also because large projects that absorb funds, such as nuclear power stations or new motorways, often face a storm of protest from a public opinion that has become more environmentally conscious.

Unlike Taiwan, Korea feels that it has no room to stimulate domestic demand through the Budget, because the inflationary risk is greater. This year's Budget is more restrictive than last year's and limits the growth in expenditure to 8.7 per cent.

This is below the planned increase in nominal GNP. In practice, however, public spending has been further boosted by two election campaigns and preparations for the Olympic games.

The combination of these measures is now beginning to bring down the NIC surpluses with the rest of the world. From a peak of $30bn last year, the Organisation for Economic Co-operation and Development (OECD) believes that the combined surplus will drop to about $26bn this year and to $22bn by 1989.

The pace could be faster if imports grow more rapidly or there is faster currency appreciation. But in global terms the Asian NICs will still have two years from now a combined surplus well in excess of Western Europe.

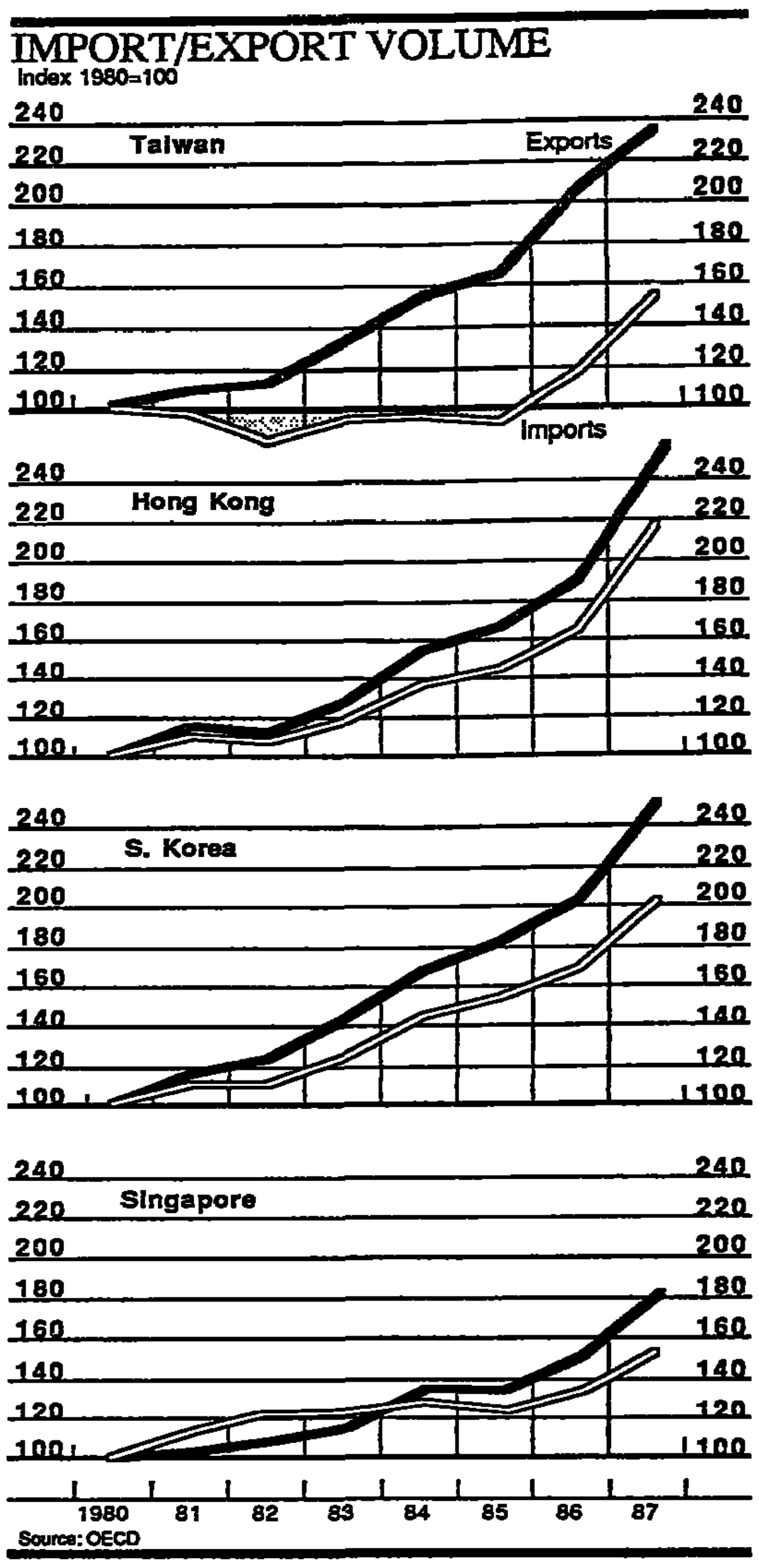
The US trade figures tell the same story of a declining deficit with the NICs. From a peak of $37.7bn last year it fell to an annualised rate of $28.8bn in the first quarter of 1988, as a result of the strong growth in US exports.

Mr Allgeier, the assistant US special trade representative, believes that a significant fall could take place over the next three years.

Most of the decline in the NICs' surplus stems from Taiwan, which now expects its trade surplus to drop from $19bn in 1987 to $10bn this year. Export orders are beginning to level off in Korea. But the current account surplus could still be well above the Government's planned $6bn in part because of tourist receipts during the Olympic games.

Over the longer term what is important is that the NICs are discovering that domestic demand can be a major source of growth. It took much longer for Japan to realise that it should spend more on housing, social welfare and consumer goods.

In focusing earlier on improving living standards and widening consumer choice, East Asian economies will also have more resilience to resist the next US recession or a downturn in the world economy.



Taiwan's unhappy toyland

AMONG Taiwan's top exporting companies, as listed in a widely-used Taiwanese business directory, is Well World, a manufacturer of stuffed toys for children. But anyone arriving these days at its workshops, built amid the tobacco fields and banana groves close to the coastal town of Taichung, has difficulty believing in its former success.

"You should not have come," says Mr Carlson Lin, the vice-President, hurrying forward in the hope that his visitor might be an American buyer. "You should have come to see us during better days."

Well World is one of those Taiwanese toy manufacturers now being squeezed out of business. Only two to three years ago it had US exports of plush toys and soft, cuddly animals worth between $14m and $16m a year. Since then it has been hit by three successive blows.

In 1985, US buyers began to shift their orders to low-cost producers on the Chinese mainland. Then in 1986 came the appreciation of the New Taiwan dollar, pushing up export prices. The final blow was the financial collapse of the US toy group Worlds of Wonder which was unable to honour payments on orders it had placed in the Far East, including those with Mr Lin.

The company's plight is readily visible. Sad, unsold Mickey Mouses with upturned, drooping eyes lie on largely deserted workbenches. In the company's show room, dust is beginning to gather on the cases of Hoppy-Woodsy owls, Care Bears, Cabbage Patch kids, Donald Ducks and soft-furred bears that had once made the company's fortune.

"At the peak we used to make some 6m to 7m products a day," says Mr Lin. Along the sewing benches some 70 women are stitching together the red jackets of a final consignment of teddy bears for the domestic market.

A labour force that had once numbered 600 – Mr Lin had two other factories as well – has been reduced to 243. The younger girls, more easily able to find jobs elsewhere, have been the first to leave. Sacks of soft toy stuffing lie largely unopened.

A large broad-shouldered man with a tooth filled grin, Mr Lin prefers to talk nostalgically about the company's past. His father started the company in 1967, at a time when all the emphasis in Taiwan was on exporting. His family had long been officials in the Taichung area, owning a cluster of houses which in part dated back to the Ming period. As is often the case in Taiwan, the family had diversified its activities, with another branch building yachts and a third owning an ice cream factory.

They had begun their tie up with the US making Ann and Andy toys for the Knickerbocker company, and then followed the successive fashions of the US soft toy market. Not only had the company enjoyed good times, but so had its employees, maintains Mr Lin.

Paid on a piece work basis, they had earned enough to build new houses. Most of his workforce were girls or married women from the local villages. "I was so happy at that time," says Mr Lin. Only three years ago orders had still been high enough for him to extended the factory.

When the downturn came, he first tried to conceal it from buyers visiting his show rooms. He moved the sewing machines into the first room of the factory to give an impression of activity.

Now his only orders are for the local market and, when they are finished, he fears the company will close. He has not yet explained this to his remaining employees. "I don't need to tell them," he says. "They realise the situation when no new materials arrive."

Mr Lin says the Government has tried to help under its programme for small businesses. It has given advice on improving productivity and quality. "But if no buyers come what is the point?"

He has also explored the possibility of shifting into the garments industry – but this too is under pressure – and of investing in Thailand, but friends who have done just that has run into trouble. He feels that his female workforce, now largely in their thirties, do not have the nimble hands for the intricate work required for assembling electronics components.

The prospect of closure and of bankruptcy do not seem to worry him unduly, however. In Taiwan, banks will not lend to companies without the collateral of buildings and land. In the event of a collapse the bank will simply take over the sheds, put up on the back end of a field, and the land that goes with them. The financial loss for Mr Lin and his family therefore seems unlikely to be great.

Trade's open door will swing both ways

THE MORE open, import-minded economies that this section has so far assumed will emerge in East Asia will make these countries easier trading partners. But their share of world export markets is still likely to grow.

The adjustments taking place will push their industries into the higher value products in consumer electronics, component manufacture, data processing equipment, cars, automobile components, garments and textiles.

The lower-end products that they abandon as a result of currency changes – footwear, toys, basic assembly operations – will shift to South East Asia, where the Japanese, Chinese and Taiwanese are investing in new production facilities. Asia is thus increasingly the manufacturing heart of the world.

This report pointed out at the beginning the striking increases in market share that East Asia has achieved in recent years. Over the last 13 years, the NICs have pushed up their share of world exports of manufactured goods from just over 4 per cent to 11 per cent. The four countries account for 60 per cent of manufacturing exports by the developing world.

Reflecting the growing technological sophistication of their products, their combined exports of electronic goods, had climbed to $19.9bn in 1986, or the equivalent of 70 per cent of US electronics exports compared with only 40 per cent three years before.

The bulk of East Asia's increasing flow of exports has been absorbed by the US. In the 1980s it has been the economy where domestic demand has grown the fastest.

It is also the world's most open economy. Thus the US absorbed 54 per cent of the $56bn growth in NIC exports between 1980 and 1986, while Europe took only 5 per cent cent (less than the four took from each other) and Japan 14 per cent.

The reverse side of this coin is that the NICs have been excessively dependent on the US market. America absorbs 44 per cent of Taiwan's exports, 39 per cent of Korea's and 37 per cent of Hong Kong's (down from 44 per cent in 1985 as a result of the territory's determination to diversify its sales).

Though US domestic demand has been slowing, and could slow much more sharply if consumer spending is cut to reduce the trade deficit, the share of imports in US domestic sales is still growing.

North America, therefore, will remain a major market for East Asia. This is all the more true in that much of American purchasing in East Asia is by US multinationals and department stores ordering products on an OEM basis that in terms of quality and price they would have trouble switching elsewhere.

The pressure on the US will be relieved as Japan begins to replace it as the major market for East Asia's manufactured goods. One of the most dramatic changes taking place in East Asia is the increasing integration of its trade and investment flows.

Japan's surplus with the NICs expanded from $17.6bn in 1986 to $20.9bn last year. But the NICs' share of the Japanese import market has also been growing, from 5.3 per cent in 1980 to 11.8 per cent last year.

At the same time, Japanese imports of manufactured goods are rising fast, climbing by 25 per cent in 1986 and an even sharper 35 per cent last year. As Japanese shoppers discover the joys of cheap Korean video cassette recorders (VCRs) or Taiwanese bicycles, so the NICs increase their share of the Japanese market.

Korean and Taiwanese exports to Japan rose by more than 50 per cent last year, and Singapore's and Hong Kong's by more than 40 per cent.

East Asia's growing economic integration is also apparent in the increasing pace at which Hong Kong businessmen are investing in China, Japanese and Taiwanese in Thailand, or in the growing trade between strongly anti-communist South Korea and Taiwan with Communist China. South Korea's trade with China, notwithstanding the fact that the two still do not have diplomatic links, has climbed to between $2bn and $3bn.

Europe has until recently been shielded from any rapid expansion of East Asian exports by the NICs' preoccupation with the US and because Europe ran a low growth rate during the 1980s. But the pressure on Europe is growing.

The NIC surplus with the EC rose by more than half last year to $7.6bn, having remained flat or even declined at around the $3bn level for much of the decade. Over 85 per cent of last year's surplus was accounted for by Korea and Taiwan.

The NICs' overall market share in Europe still remains small. But because the volume of imports has risen so rapidly and because they have been concentrated on a relatively small range of products – consumer electronics, household appliances and clothing – as was the case with Japan in the 1970s, the alarm bells have begun to ring.

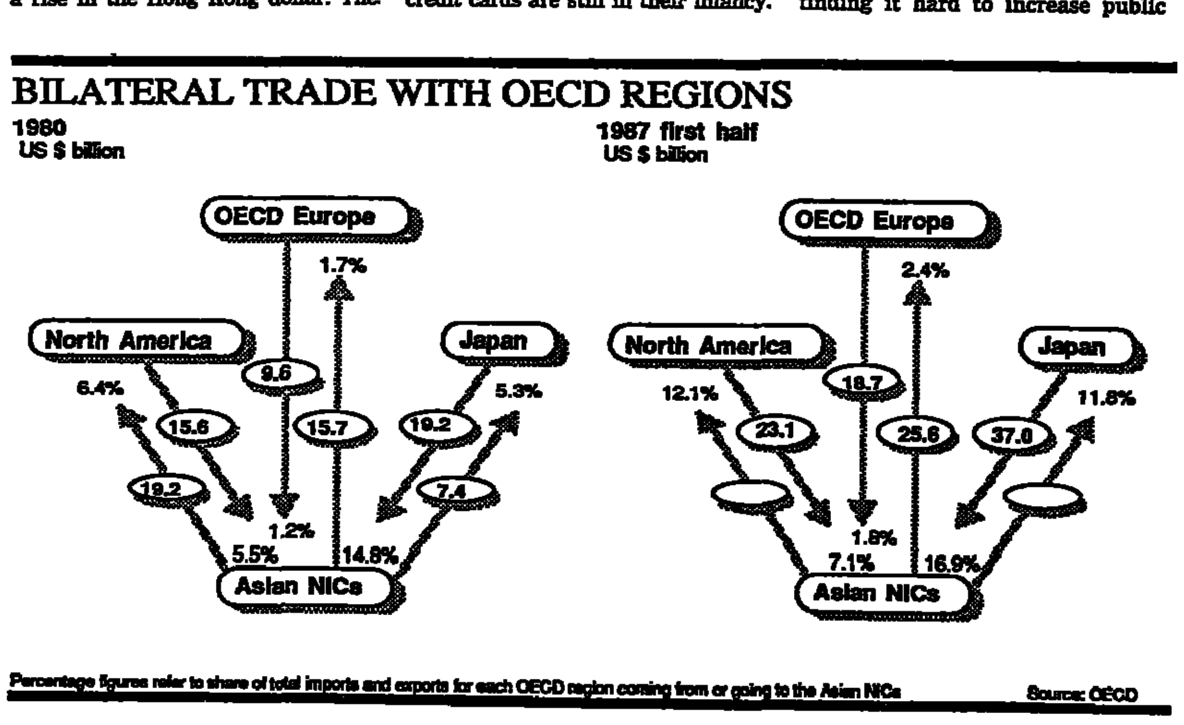
Some of the increase reflects European electronics manufacturers like Philips and Thomson following in the footsteps of the US multinationals in purchasing more products in the Far East which they then sell under their own brand names. But Korean groups like Samsung, Daewoo and Goldstar have also begun to market more aggressively in Europe.

Over the last year the Koreans have thus more than doubled their share of the European VCR market to 16 per cent, raised it by half in microwave ovens to 31 per cent and doubled it with small TVs to 14 per cent. Five years ago the Korean manufacturers were not present in Europe.

The EC's response has been to serve a warning to the Koreans by stepping up the number of anti-dumping charges and by strengthening the anti-dumping team at the EC headquarters in Brussels.

At the same time European manufacturers are attempting to draw the Koreans into negotiations that will leave them the lower end of the market, while looking for more co-operation over pricing and other production sharing arrangements.

Whether the carrot and the stick will work depends on the level of demand in the US and Japanese markets, and increasingly on the growth of the Korean domestic market. But the Koreans now see themselves as global players – and thus maybe as global partners as well.



Percentage figures refer to share of total imports and exports for each OECD region coming from or going to the Asian NICs   Source: OECD

Glamour is added to the shopper's paradise

ANYBODY doubting the growing itch of East Asian shoppers to spend need only a take walk through Taipei's glamorous new department stores.

A cluster have sprung up in the last two years, many of them joint ventures, like Sogo or Sincere, with Japanese or Hong Kong groups to take advantage of Taiwan's rising incomes and now stronger currency. During last December's Christmas rush, the department stores reported that their sales for the month were 32 per cent up on the year before.

Mrs Frances Leung, the elegant manager Sincere recruited from Hong Kong to open the Taiwan store, says: "The market has changed tremendously over the last two years. Lots of investors are coming to Taipei. There is tremendous potential."

Sincere is aiming at Taipei's rich who are interested in purchasing fashion clothing from Europe, imported furniture, china, and other luxury household items. "The market is changing so fast," says Mrs Leung. "People now realise they have money to spend and are entitled to a better way of life. They see there is nothing to be ashamed of in that."

Formerly the head of promotion at Lynn Crawford, one of Hong Kong's smartest stores, Mrs Leung says that in Taipei "we are still trying to educate people in what we are selling. To appreciate it, you have to know what the outside world is about. You have to know the brand names and the trends in Western fashions."

She describes regular customers as "pretty rich," but adds that "what is a good sign is that we are beginning to appeal to a younger market."

When the store first opened lots of items had to be sold at double the price of Hong Kong, because of import duties and the low level of demand. But now prices are only 20 to 30 per cent above those of Hong Kong for many items, and in some cases are lower.

"The strong New Taiwan dollar is very favourable to us," she says. "Lots of customers say that it is not worth going to Hong Kong and that it is better to shop here."

Sincere has one of the biggest bed and bathroom linen departments in Taipei. It has recently had a success with items like matching sheets and towels, demonstrating a shift in Chinese taste, which has traditionally favoured comforters and quilts.

Taipei's departments stores are unable to import directly all they sell. A significant proportion of the floor space is leased to agents for foreign manufacturers who have exclusive rights to retail their products in Taiwan. Agents lease as much as 70 per cent of the counters in some department stores.

Sincere is one of the exceptions and has reduced "counter" space to some 20 per cent of the store. Household furniture and fashion clothes are increasingly imported direct.

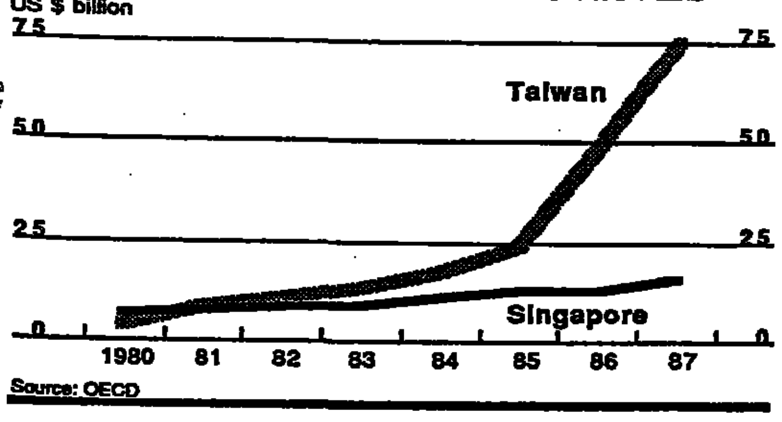
Mrs Leung says that other stores, like Sunrise, are following Sincere's example in moving up market and establishing designer boutiques within the store.

She came to Taipei from Hong Kong when her husband was moved by his advertising company. Few Taiwanese women would have the experience or style to run a large, fashion conscious department store.

"There are lots of brilliant women here," Mrs Leung says. "But in Taiwan men still believe that a woman's role is in the house." It is rare to find Taiwanese women holding senior executive positions as in Hong Kong.

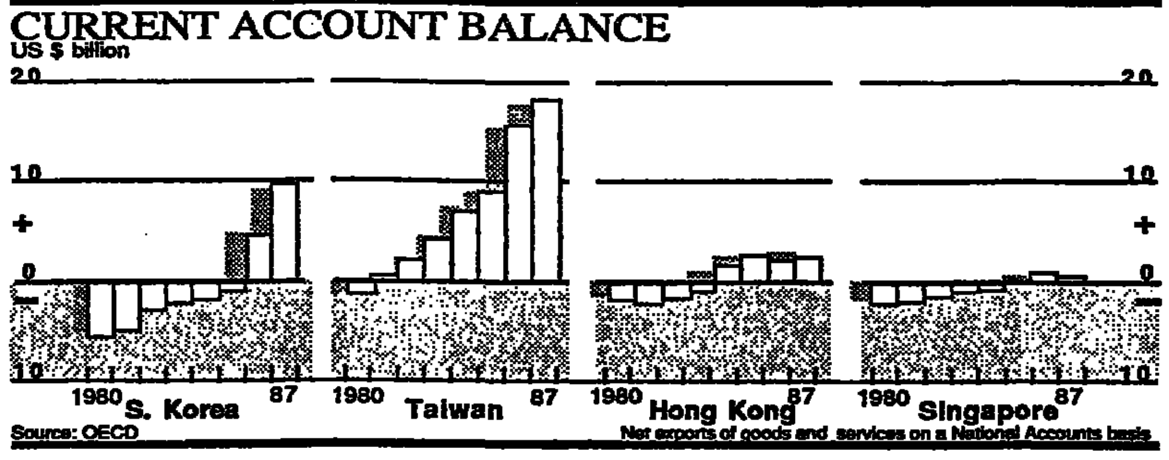
She says: "There are still a lot of women here who are used to being told what to do, when they know what should be done." She believes that young women are often more competent than men of the same age because the men have had to spend two to three years doing national service.

FOREIGN EXCHANGE RESERVES
US $ billion



Source: OECD

CURRENT ACCOUNT BALANCE
US $ billion



Source: OECD. Net exports of goods and services on a National Accounts basis

NICs' BALANCE OF TRADE
US $ million

	US	Japan	EC
1980	-3038	+11810	-5735
1981	-5744	+12262	-3887
1982	-6701	+10050	-2459
1983	-10702	+12707	-3288
1984	-18642	+14309	-2723
1985	-22147	+12750	-1517
1986	-27846	+17677	-4776
1987	-34117	+20777	-7764

Source: OECD

POLITICS

Authoritarianism starts to crumble

Improvements in education and the growing strength of labour would hamper any return to hard-line regimes

EAST ASIA has had the highest economic growth rate of any region in the world over the last 30 years. It has also lived under varying types of authoritarian government from the military dictatorship of Korea to the one-party rule of Singapore.

This combination has led many political scientists to draw the conclusion – uncomfortable to Western liberals – that authoritarianism with its emphasis on order and discipline has been a major factor in East Asia's economic success.

The fallacy has taken two forms. There have been the arguments set out by Professor Chalmers Johnson, the American Asia specialist, that authoritarian governments have provided the stability that gave technocrats "the space to act" and to design economic policies with a long-term horizon.

The alternative thesis sees East Asia's success as dependent on the Confucian qualities of omnipotent government, respect for hierarchy, and mobilisation behind national or corporate goals. Though in this latter case, it has never been fully explained – as Professor Tu Weiming of Harvard University has pointed out – why the Confucian institutions which "both Asian and American scholars considered detrimental to modernisation in as late as the 1960s (are) now perceived to have embodied the strength that has made the post-Confucian states so competitive in the international arena?"

But both sets of views have taken a severe shaking from the events of the the last two years. Authoritarianism is crumbling in Korea, Taiwan and China without any noticeably damaging impact on economic growth. In fact, East Asia has enjoyed a boom almost unprecedented in its post-war history.

Confucianism in particular has suffered a blow intellectually from being linked with the paternalistic values now increasingly in disfavour, and from being associated in Korea with the Saemaul Undong rural development movement which has been at the centre of corruption charges.

By contrast, the countries that have stood most firmly against the tide of liberal reform like Singapore and Malaysia now look more vulnerable both politically and economically in falling back on an old fashioned authoritarianism.

By the same criterion the most worrying cloud hanging over the future of Hong Kong is that Peking's bureaucrats will not realise in time that Hong Kong must stay ahead of the political changes in East Asia and that the city state's continued success as a capitalist hot-house depends as well on enlarging personal and political freedoms there.

The crumbling of authoritarian rule means that what had seemed East Asia's most difficult problem of the 1980s – the transfer of power between generations – is taking place more smoothly than could have been hoped. In China, Mr Deng Xiaoping has stepped aside to make way for his successors – the first time that a Chinese or Russian leader has not died in office, or been evicted.

In South Korea, the transition to civilian rule which should have occured after President Park Chung Hee's assassination in 1979, but was prevented by military intervention, has now occured.

In Taiwan, a Taiwanese Christian has taken over from the Chiang family in a succession orchestrated by Mr Chiang Ching-kuo and preceded by liberal reforms. The outstanding succession still to be negotiated is that of Lee Kuan Yew in Singapore.

East Asia is thus groping its way towards a new institutional pattern. Its reformist leadership is treading a tightrope in trying to preserve the stability and discipline that was East Asia's advantage, while responding to demands for more participation, increased decentralisation and less government control.

If that sounds Utopian, it should be remembered that East Asia's post-war generation has grown up under the influence of American ideas, sharing US beliefs in the perceived dangers of communism, depending on the US market for the bulk of its exports, and, where possible, sending its children to US universities.

In the days of declining US power in the region, paradoxically US liberalism has the upper hand among the new entrepreneurial, technocratic and managerial classes. Taiwanese, Koreans and even Chinese are far more open to ideas from the other side of the Pacific than ever the Japanese were at a similar period of development.

The process of democratisation could not have gone ahead if the Cold War had persisted. Even in 1980, the Korean generals were able to justify the intervention that put Mr Chun Doo Hwan in power by invoking the threat from North Korea. It was the continuing friction with Communist China that put reform in Taiwan into cold storage for so long.

Political change is now being accelerated by the relaxation in world tensions and by the fact that a a similar process is taking place across the communist world, from Mr Gorbachev's Soviet Union to Mr Zhao Ziyang's China.

"We could not have formed a labour movement unless there had been a relaxation in world tensions," says Mr Wang Ching-ping, chairman of the central committee of Taiwan's new Workers Party. "At the same time a revolutionary movement is ruled out because the Government has felt able to lift martial law and permit political parties. Peace is thus crucial."

Governments also feel that they can take more risks in allowing demonstrations, student clashes, protest lobbies and election defeats – the normal baggage train of democracy – because the external threat from Communist China or North Korea is that much less.

They are working hard to minimise it further by exchanges with the communist world that would have been unimaginable two years ago – Taiwanese in droves visiting the Chinese mainland, Koreans opening up diplomatic missions in East Europe, a Korean government reopening the issue of reunification with the North, substantially increased trade and investment with Communist China.

Authoritarianism in East Asia lasted so long because governments lacked the legitimacy that comes from popular support. In Taiwan's case, the remnants of Chiang Kai-shek's fleeing armies imposed themselves on an island that had wanted to be independent. It took time for the aliens to be accepted and integrated.

In South Korea, the post-war establishment was drawn from a mixture of those who had fled to the US during the Japanese occupation and those who had worked with the Japanese (this latter group including many of the military and the industrialists).

The mainly left wing guerilla movements which had stayed to fight the Japanese later congregated in the North. North Korea's claim to be the "legitimate" successor to the popular uprisings against the Japanese stems from this.

The already strong conservatism of the South Korean leadership was reinforced by the division of the country and the ideological conflict with the Communist north. It meant that Marxist, socialist or dissident movements were treated as disloyal or treacherous.

"It was difficult to advocate social policies without being thought a dissident," recalls Mr Soon Cho now a fellow with the Institute of International Economics in Washington.

When President Park came close to losing an election to Mr Kim Dae Jung in 1971 – Mr Kim got 46 per cent of the vote – Mr Park's Government became increasingly authoritarian. It took over 25 years of military rule before the lid was finally lifted.

The legitimacy of Mr Lee Kuan Yew's Government in Singapore has never been in doubt because his People's Action Party (PAP) has held a majority of the seats in the Parliament. If doubts have begun to grow as to whether its legitimacy will remain uncontested, it is because Mr Lee has seemed increasingly authoritarian in his ways and unwilling to tolerate an opposition.

Britain's right to govern in Hong Kong has never been challenged by its Chinese population, only too glad to see the British presence as a barrier to communist expansion. But China has for a long time contested the validity of the treaties on which Britain's presence depended.

Worries over legitimacy have been the driving force behind governments' determination to justify their regimes through economic success. In this sense, authoritarianism and East Asia's rapid post-war growth were closely linked. In both Korea and Taiwan, the political leadership had the sense to give their able technocrats a free hand in designing economic policies.

They also gave their industrialists the incentives to invest and export. But in the end, there is much truth in Mr Soon Cho's comment that it was the extraordinary energy Koreans showed after the war rather than government policy or the aggressiveness of the *chaebol* (conglomerates) that accounted for Korean success.

"The dynamism of the Korean economy has to do with the dynamism of the Korean people," he says. "Whatever the success of the Korean economy, it springs from that rather than the Government or the *chaebol*."

The technocrats were able to plan far ahead because authoritarian governments provided them with stability. East Asia's crisis of the mid-1980s was that authoritarian governments could no longer guarantee this. Mr William Gleysteen, a former US ambassador to Korea, remarked in an article on foreign Affairs in July 1987 that "South Korea seems to have reached a point of maturity where continued political stability requires discernible progress towards a more democratic, less repressive political system." What is true of Korea is true elsewhere.

Reformist leaders are treading a tightrope in trying to preserve the benefits of discipline and stability

Mr Chiang Ching-kuo, who had taken over from his father, Chiang Kai-shek in 1975, was the first to see the writing on the wall. He was a much abler figure than his Machiavellian father and had seen the upheavals of the 20th century from both sides of the fence. He had been a communist and an admirer of Stalin, before the Soviet leader imprisoned him in a labour camp. His large, deeply lined worker's hands bore witness to that terrible experience. "He had long been a reformist," says Dr Milton Yeh, who points to his record of fighting corruption in Shanghai after the war.

Several factors seemed to have pushed Mr Chiang to set in motion the programme of liberal reforms that now amounts to a revolution on the island. There was the ominous warning of the Philippines, where President Marcos' resistance to reforms had precipitated a revolution. There was the contrary example of mainland China where Mr Deng, was winning international recognition for his reformist initiative. How could Taiwan allow itself to be seen to be falling behind?

Mr Chiang wanted to re-invigorate the KMT, which as a Leninist-style party cast its shadow over all aspects of life in Taiwan but which had turned moribund and out of touch with public opinion. Above all, however, there was growing domestic pressure for change. An increasingly well educated, better off population wanted the chance to speak its mind, to criticise, to lobby, to travel abroad and to spend more freely. In short, reform was popular.

In September 1986, Mr Chiang allowed the formation of an opposition Democratic Progressive Party. In elections in December for a limited number of seats in the Parliament, the DPP won almost a quarter of the vote. In July 1987, Mr Chiang lifted martial law and eased foreign exchange controls. He then went on to break with one of the sacred tenets of Taiwanese life in allowing "mainlanders" and their families to visit China. In January just before he died, newspapers were allowed to increase their size to 24 pages.

All this is being built on by his successor, Mr Lee Teng-hui, with the widening of political debate, the encouragement of diversity within the formerly monolithic KMT, and more representation for native-born Taiwanese in the Parliament.

Reform is being implemented on a step-by-step basis in the hope of avoiding a backlash from the conservatives, or of letting the process get out of control. "Imagine cows within a fenced-in field," says one KMT official in describing the pace of reform. "We let them out of the gate one by one and can always shut it if need be."

In Korea, the reformist initiative stemmed from the decision by Mr Roh Tae Woo in June 1987 to accept the opposition's demands for direct Presidential elections. Until then Mr Chun Doo Hwan, the outgoing President had hoped to hand over to his former colleague and self-appointed successor without a real electoral contest.

But the head of steam against continuing authoritarian rule was stronger in Korea than in Taiwan. It first brought students out onto the streets and then the professional and managerial class which had benefited materially from the Chun and Park regimes but were no longer willing to succumb to a perpetual military coup d'etat.

Since then Korea has held one more or less fair Presidential election and a Parliamentary election that was fair enough for the President's Democratic Justice Party to lose its overall majority. The press has been given more freedom, unions allowed to organise and to strike, and (but by no means all) political prisoners released. Perhaps most surprisingly of all, a corruption enquiry was launched into the business affairs of Mr Chun's brother, and forced the former President to resign from the prestigious posts he hoped to hold in retirement.

In Hong Kong, the pressures for more democratic freedom have been brought about by the prospect of the colony being absorbed into Communist China after 1997. Peking has been so concerned over reassuring Hong Kong's business community of its capitalist credentials and of encouraging two-way investments to integrate Hong Kong into the mainland that it has not really focused on this issue.

But a Hong Kong that is unable to liberalise politically, in an Asia that is liberalising as well, will lose out on an important dimension of its regional leadership.

The pace of change has already brought a fundamental shift in the East Asian political landscape. One casualty has been the ability of governments to invoke Confucianism to justify repressive regimes. This aspect of Confucianism – its defence of hierarchy and obedience whether in political or corporate life – has been severely undermined.

An additional blow to the moral example of Confucianism has been the corruption charges in Korea which focused on abuses in the Saemaul Undong movement. This was a vehicle created by Mr Park, and continued by Mr Chun, to project his leadership in the countryside while promoting rural development. Even before the scandal Mr Lucien Pye, an East Asian scholar, called it "a vulgar blending of Confucian emperor worship, Maoist fanaticism, and an embarrassing mirror image of the glorification of Mr Kim Il-sung's campaigns in North Korea."

What remains as durable in political terms of the Confucian heritage is its emphasis on education and on the importance of family ties.

For the future the single most important development is the emergence of labour as a political force. Until now labour has had no political voice and virtually no union representation in Korea and Taiwan.

On top of that Mr Kim Il-chul, a sociologist at Seoul National University, says Korean governments "had indoctrinated workers that the Korean economy was on unstable foundations" and that militancy was thus dangerous. But while conservative regimes remain in power in Seoul and Taipei, the major opposition will increasingly come from labour or social democrat parties.

Taiwan already has a Workers' party, set up last year by a deputy from an agricultural family who defected from the DPP. Its first manifesto that emerged in January says that "private ownership and the market mechanisms of capitalism must still be fully respected." The document puts the emphasis on the building up of the trade union movement, more equitable income distribution and improved social welfare.

As yet it has only a few hundred full-time members. But Mr Wang Ching-ping, chairman of the central committee says that numbers are being deliberately kept down to build up a trained cadre on Leninist lines.

"At the moment," he says, "it is a kind of elite party. We are trying to enroll union leaders and progressive students. That is the main goal." A further reason for keeping numbers down – a policy by no means accepted by all members – is to prevent infiltration by the secret police.

Korea has no labour party as such. But Mr Kim Dae Jung, now the leader of the largest opposition group in the National Assembly, has at different times advocated social democrat-style policies over wealth redistribution, housing and social welfare. He has also called for limiting the power of the *chaebol* – inevitably a prime target of any socialist movement becaise of the way they reflect the tie-up between large corporations and authoritarian government – and for more help for small business.

But if Korea has no organised labour movement, Koreans have a strong sense of equality and social justice. "In the Korean version of democracy," says one sociologist in Seoul, "the emphasis is always on equality. Liberty and individual freedoms take second place."

It also has a large and diffuse radical movement that embraces students, university professors and left wing dissidents. Its followers turn their back on export-led growth – too closely linked with the country's repressive past – and encourage national self sufficiency and import substitution, along lines reminiscent of Latin America thirty years ago.

"We import components at high prices from Japan," says Dr Park Hyun-chai, a radical professor who was imprisoned by the Park regime, "and we transform them into finished products which we then export to the US with little gain to ourselves. Meanwhile our agriculture and our other industries pay the price of our economy being too trade oriented. Why should we continue with this pattern?"

Against the uncertainties that the future inevitably holds, a major factor for stability is the increasing proportion of East Asians who identify themselves as middle class. One public opinion survey in Korea found that over 60 per cent of those questioned put themselves in this category.

Middle class clearly does not refer in the East Asian context to those with middle class living standards by Western standards. Professor Lee Hong-ku, a political scientist at Seoul National University, says those who call themselves middle class would *identify themselves as such* because "they hold a steady job, avoid extreme positions in politics" and have a reasonable, but unostentatious living standard.

It was middle-class voters on this wide definition of the term who gave Mr Roh Tae Woo his victory in December, and who – notwithstanding the April Parliamentary election results – still represent a strong force for compromise and continuity.

East Asia's new liberalism is bound to run into rough patches – particularly in Korea, which has a history of volatile change. Mr William Overholt, an economist with Bankers Trust, likens Korea to a "Ferrari driven at enormous speed. At times parts fall off and then the growth rate drops to zero."

Both Korea and Taiwan have yet to solve the problem of easing out the military and old guard hardliners without producing a backlash against reforms. Riots in Taipei on May 20 bore the signs of being provoked by conservatives anxious to slow the wheels of change.

But East Asia's authoritarian regimes had reached a dead end. Continuing economic advance required giving entrepreneurs, managers, administrators, union leaders, universities, and regional authorities more breathing space. It is that nettle that has been grasped.

Singapore takes view that risk is bad for its health

"WHY RISK your health? Don't buy from unlicenced street hawkers," says the sign in Scotts Road in the centre of Singapore.

Whether it is unwholesome food, or foreign journalists writing about its domestic affairs, or a critical Parliamentary opposition, or local investment in manufacturing industry, Singapore generally prefers not to take the risk.

The country that in the early 1970s was the fastest growing economy in Asia and one of the most dynamic, has become one of the most timid. It has slipped behind Taiwan and South Korea, both in the pace of its economic expansion and in its reluctance to undertake the liberal reforms now being implemented in those former military dictatorships.

Its lack of sureness in itself is apparent in those patriotic slogans that Singaporeans are encouraged to chant. Aimed at promoting national self awareness, these include "Sing for Singapore" and "A Nation for All Together. Excellence for Singapore." Or try this refrain from a song prepared for the Convention of the ruling People's Action Party (PAP) earlier this year.

"Arise, awake, our land is calling strong and clear.
We will defend the Isle we hold so dear.
We all belong to this nation so brave and strong.
This is our land.
O Singapore, we love you so, love you so."

As a market-oriented capitalist state, Singapore has few indigenous entrepreneurs of its own – in sharp contrast to the aggressive industrialists of Hong Kong, Taiwan or Korea. Businessmen in Singapore will tell you that one reason is that few want to take the risk of becoming too successful or too powerful.

In the early days after independence, Mr Lee Kuan Yew encouraged multinationals to set up in Singapore as a short cut to industrialisation and to providing access to Western markets. Industry is still dominanted by foreign multinationals and Singapore public sector companies. But official policy now is to encourage more locally managed, private sector firms.

Ask Mr Lee Hsien Loong, the Minister for Trade and Industry, why Singapore has not attracted more of the Hong Kong-type of "swashbuckling" capitalists, and the answer is revealing. He laughingly replies that "some would liven up the place," before tracing the differences in the origins of Hong Kong and Singapore.

He characterises Hong Kong as a society with extremes of "miserable poverty and a rip-roaring career to the top." But Singapore, he says, has offered a "more sober career profile." Most able people in the early days of the country's independence went into government or multinational corporations. "It was good that it worked out that way," he argues. "If we had not had them in the civil service, we would have been in trouble."

The country's prudence means that Singaporeans are the best housed and have the best welfare provisions of any population in Asia, outside Japan. Mr Lee Kuan Yew says: "We have settled the basic issues of the 1950s and 1960s: education, employment, housing, health, transportation, have been solved for the vast majority of Singaporeans. We have enough schools and teachers. We have a job for everyone who leaves school, more jobs than there are Singaporean job-seekers.

"Workers can buy their own homes, and about 80 per cent have done so. We have good doctors, hospitals, medical equipment and facilities to care for everybody."

On top of that, the clever and able men who run the Government – and Singapore has some of the cleverest in Asia – protect Singaporeans from the follies of their own weak, human nature. They are forbidden to let off fireworks on Chinese New Year because of the risks. Girls under 18 are not allowed into discotheques.

"Whatever is not prohibited is prescribed," according to a quip made by many Singaporeans.

Among things prescribed is Asia's highest level of household savings. Now 35 per cent of gross pay – it used to be 50 per cent before the employers' contribution was cut by 15 per cent – is compulsorily levied by the state run insurance fund. Singaporeans are now being given more choice over how these funds are invested. But it is a choice that still provides them with a basic pension to guard them against the risk of their own carelessness or mismanagement.

"If all the other ships crash, they will still have one to come back to harbour," says Mr Lee Hsien Loong.

Little wonder that some people tell you that Singapore is over regulated or boring. Little wonder as well that some Singaporeans are leaving. Between 2,000 and 4,000 families are said to be emigrating each year.

Mr Lee Kuan Yew's caution has at times carried a cost. In the 1960s and 1970s he declined to invest as heavily as Korea and Taiwan in education, for fear of the risk of creating an army of educated unemployed. The result was that in the late 1970s and early 1980s Singapore had a less well qualified workforce that its competitors.

Mr Lee's decision to operate through multinationals – which he knows and understands – brought immediate advantages to Singapore. But it also carried the cost in the late 1970s of a slower growth of productivity than the country's competitors, because multinationals had more interest in preserving a low-cost, low-skilled workforce. Mr Lee then sought to force them to upgrade their technology through a policy of government orchestrated wage increases. The high pressure tactics helped bring on the recession of 1985.

Businessmen in Singapore – journalists cannot afford to be too precise with their sources – will tell you that Singapore is an economy that is no longer realising its potential. One sign of this is the declining rates of return in recent years on public and private sector investment.

Whereas in the other Asian NICs, officials talk of the possibilities of expansion, the emphasis in Singapore is on the constraints of growth. Last year's 8.6 per cent growth in real GDP, Mr Lee told the nation in a New Year's address, was "well above our estimated long-term growth rate of four to six per cent." The pace of expansion is of course dependent on the growth in the size of the labour force – Singapore's major constraint.

But it also depends on other factors such as entrepreneurial skill, technological change or the intelligent use of the country's foreign exchange assets.

With \$12.9bn in foreign exchange reserves, equivalent to 75 per cent of GDP, Singapore has one of the highest levels of foreign exchange reserves per head of any country in the world. It has only very recently begun to explore how these might be invested abroad to secure holdings in foreign companies that could help strengthen Singapore's own industry and services sector.

Even a year ago, Mr Lee did seem more willing to encourage more debate and to widen consultation over government policy. The Economic Committee, set up under Mr Lee Hsien Loong in 1985 to examine the causes of the recession and to propose future directions for the economy, provided a critical study of government management on the basis of wide ranging consultations.

Younger ministers, like Mr Lee Hsien Loong and Mr Goh Chok Tong, subsequently made a strong effort to establish a closer dialogue with public opinion. A "think-tank" was also set up to see how to involve Singapore's increasingly highly educated, and widely travelled younger generation more closely in decision making.

The Government's recent arrest of dissidents, the extraction of public confessions and the charges against US diplomats and foreign newspapers do not, however, encourage an atmosphere of open debate.

Singapore's timidity has its roots in fear. In part it is the old fear of the tensions of a multi-racial society, exacerbated by the growth of Moslem fundamentalism in neighbouring Malaysia.

The memories of the Chinese-Malay conflicts of the independence period and of communist subversion still live strongly with Mr Lee. But the fears are also that the liberal reforms taking place in Taiwan and Korea will put similar pressures on Singapore.

At one point it had seemed that Mr Lee might retire after the general election due this year or next. It could be that he will no longer take that risk.

THE CHALLENGERS

Industry over agriculture

The high growth rates of the NICs have put pressure on neighbours, like Thailand, China and Malaysia not to fall too far behind

MR LEE KUAN YEW was quoted at the beginning of this report as saying: "What Japan has done, the other peoples along the Rim, Koreans, Chinese and Vietnamese, can do."

The surprise is that South East Asia is industrialising faster and exporting more manufactured products than anybody could have imagined a few years ago.

This is true in varying degrees of the large agricultural and commodity rich countries of the region like Thailand, Indonesia and Malaysia. It is true of southern China, where centralised communist planning is yielding more and more ground to market forces. It could also be true of Vietnam, where disastrous harvests are strengthening the pressures for reform.

"It is a revolution – a *perestroika*," says Mr Tadao Morotomi, who heads the Bangkok office of Jetro, the Japanese export agency.

Three factors have helped precipitate this state of affairs. The high growth rates of the newly industrialised countries (NICs) have put pressure on their neighbours not to fall too far behind. Secondly the collapse in commodity prices in the early 1980s forced commodity producers to look for new sources of growth.

Third, the international realignment of currencies has opened new opportunities for South East Asia in manufacturing textiles, cheap electronics goods, toys and footwear, while bringing with it a surge of new foreign – largely Japanese – investment.

In a landmark change, manufactured goods overtook agricultural products as Thailand's main source of export earnings in 1985, and now industry contributes more than agriculture to national output. In Malaysia, exports of manufactured products overtook exports of agricultural goods last year.

South east Asia climbs up the next rung of the economic ladder with some advantages over Latin America. Its outstanding foreign debt is much lower and, with exceptions like the Philippines, it has had competent and generally development minded administrations.

One disadvantage is the tense racial friction between Chinese and Malays that threatens to hold back investment and growth in Malaysia.

This section looks at three countries: Thailand, which is clearly the front runner in the region to be the next NIC: Southern China which is pursuing its own helter-skelter industrialisation in tandem with Hong Kong: and Malaysia where political problems are dogging economic development.

Thailand builds from a diversified base

DR PHISIT PAKKASEM, one of Thailand's most respected technocrats, gets understandably impatient with those who think that Thailand's present boom has blown up out of nowhere like a cooling rain burst on a sticky Bangkok afternoon.

He believes the credit should be given to the years of steady growth that helped establish a well diversified economy. But the present frenzied rate of economic activity in Thailand is both new and runs on different motors from that that went before.

It is new because the Thai economy ran into difficulties in the years 1980 to 1985. The average annual growth in gross domestic product (GDP) sagged to 3.8 per cent – or half the rate it had been in the 1970s.

Export prices for Thailand's main commodities, rice, rubber, maize, tapioca and sugar, slumped – with rice prices falling by eight per cent a year. Industrial growth slowed sharply as well. The trade deficit widened and the Government's debt as a proportion of GDP jumped from 21 per cent at the end of 1981 to 37 per cent in 1986.

A good deal of this was a result of the slow down in the world economy that followed the second oil shock. Some of it was due to the uncharacteristically wrong-headed policies that Thai administrations followed in the years 1977 to 1983. As obvious opportunities for import substitution ran out in the 1970s, the Government pushed industry into costly capital intensive projects ranging from oil refineries to chemicals, vehicle assembly and machinery.

"It was the only time in Thailand's recent history that we have had a conscious economic policy," says Dr Olarin Chaipravat, the pugnacious vice-president of the Siam Commercial Bank and the man who has earned a reputation for himself by predicting that Thailand is now entering a golden age. "Unfortunately it was the wrong policy," he adds.

The Government backed its industrial drive with industrial incentives and tariff protection. Korea, it will be remembered, carried through a similar exercise at about the same time, with costly results in terms of excess capacity and an increase in foreign debt.

But the main reason why the economy slowed was that Thailand's conservative monetary authorities kept the currency pegged to the dollar for an almost unbelievable 35 years. As the dollar rose in the early 1980s, so the baht became increasingly overvalued, and exporting increasingly unprofitable.

To give an idea of the loss of competitiveness that this policy cost the Thai economy, the Thailand Development Research Institute (TDRI) has compared Thai and Korean exchange rate management. While the baht barely changed against the dollar between 1955 and 1984, the Korean won depreciated by an average of 10 per cent a year.

Readers of section two will have seen that the success story of East Asia's fast growing economies almost invariably began with a devaluation. The baht was devalued by 15 per cent against the dollar in November 1984. General Arthit Kamlangek, the then Commander-in-Chief of the armed forces, went on television to denounce it. Finance officials had some doubts themselves because the devaluation would make it more costly to service the huge increase in foreign debt that had taken place in the previous years.

The planned devaluation of 1984 was followed by what for the Thais was the unplanned slide in the dollar from October 1985, leading to a further depreciation of the baht. Dr Olarin claims the Government "failed to see the dramatic effects" of the shift in international parities.

Whether or not it did, the beneficial fall-out for Thailand was immediate. Manufactured exports have grown by an average of 40 per cent in 1986 and 1987. Tourist earnings increased by 27 per cent last year. Applications for new foreign investment quadrupled in 1987 to baht 209bn.

"We worked, breaking our backs to process them," says Mrs Vanee Lertdumrikarn, deputy secretary general of the Board of Investment. "Up to 1986, most of the projects were geared

to the domestic market. Since then more and more applications are export oriented," she adds. Dr Phisit claims that there are applications worth $6bn still in the pipeline.

The increase in exports has been across the board, including both Thailand's traditional goods, such as processed foods, and new industries that it has been developing, like semiconductor assembly and gems and jewellery.

But significantly, some of the sharpest increases have been in products that existing Asian NICs are being forced to shed because of Thailands' new competitiveness. Garment exports increased by 73 per cent last year, footwear by 73 per cent and leather and plastic luggage by 208 per cent and 173 per cent respectively.

The sharpest increase in foreign investment has been from Japan, indicating that Thailand has become a preferred choice in south east Asia for Japanese electronics and household appliance manufacturers.

In particular, these have been forced to relocate in order to drive down their costs. Sharp (planning worldwide sales of Thai-made microwave ovens, refrigerators, washing machines and audio products), Toshiba, Sony and Matsushita are all expanding their facilities.

As the high yen means these companies can no longer import components from Japan, Thai parts manufacturers have begun to spring up. Thus San Ei Kinzoku, which makes the doors and other stamped metal parts for microwave ovens, has set up shop close to Sharp.

Dr Phisit, deputy secretary general of the National Economic and Social Development Board (NESB), is right in saying that none of this could have come about if Thailand had not already established an environment that was propitious to the next stage of industrial take-off.

Perhaps the most important element in this is that Thailand has a large entrepreneurial class in its Chinese business community. Unlike Malaysia or Indonesia, where the Chinese are a source of racial friction, in Thailand they are fully integrated into national life and often bear Thai names.

It was this business class that was largely responsible for the growth of industry in the 1960s and 1970s. Thailand, with a population of 50m is thus a larger domestic market than the NICs. It chose the import substitution model.

Prime Minister Prem Tinsulanond has kept the military at bay

Industry has therefore grown up behind substantial protective barriers – rising to duties of 600 per cent on imported cars – and shows the scars in terms of high costs and inefficiencies of scale. But tariffs are now coming down and competition is being encouraged.

In Thailand's favour as well is that it has large untapped reservoirs of labour. Some 60 per cent of its workforce is still on the land. One Western diplomat believes that "on a graph measuring wage costs and productivity, Thailand gets among the best scores in Asia." He argues that the "tremendous success of manufacturing diversification in the country is strong evidence of the adaptability of labour."

Notwithstanding the coups and upheavals of the 1970s, Thailand is also building a reputation for political stability that reflects an underlying social cohesion. Prime Minister Mr Prem Tinsulanond has been in power for eight years and, though a former general himself, has kept the military at bay.

As has happened in Korea and Taiwan, the growth of an educated middle class opinion is providing a barrier against renewed military intervention.

The Government has in turn left the management of the economy to its technocrats, while believing that growth should be led by the private sector.

Since Mr Prem came to power, says Dr Virabongsa Ramangkura of the TDRI, "we have moved more towards market price mechanisms." Bureaucrats share this opinion of their role. "We are the least interventionist of governments," claims Dr Phisit, adding that "government should remain a regulator in the economy and not a doer."

Growth last year climbed back to the near 7 per cent increase in GDP that Thailand regularly achieved in the 1970s. But what the bare figures conceal is that with the stagnation in the agricultural sector – once the main motor of the economy – the increase in activity now stems entirely from industry, construction and services.

With the pick-up in the growth rate, some of the other problems that have been dogging the economy look less daunting. Savings are increasing as incomes and economic activity rises. The current account moved briefly into surplus in 1986. Government deficits are smaller as a proportion of GNP, and by the same yardstick foreign debt is shrinking as well.

Faster growth, nonetheless, brings with it familiar bottlenecks. There are already signs that Thailand's roads, ports and urban infrastructure are being overwhelmed by the new surge in industry. Thailand has invested insufficiently in infrastructure in recent years because the Government has been holding down public expenditure in an effort to curtail its debt.

"The Government cannot deliver on its own," says Dr Phisit. "We are thus looking to the private sector for support" to help develop roads, water supplies, telecommunications, air transport and energy. Schroders, the investment bank, and Cooper & Lybrand, the accountants, have been asked to advise.

The sharp increase in foreign investment has revealed the weaknesses in Thailand's corporate structure. Most companies are family-owned businesses with which multinationals are reluctant to enter into long-term commitments.

For Thailand, however, the most worrying preoccupation of its new prosperity is that it is widening the gaps in wealth between Bangkok and the provinces, on the one hand, and between agricultural and industrial workers on the other.

One of the successes of the first generation of NICs was that they found a balance between high growth and equitable income distribution that has only recently begun to wear thin.

High yen brings fresh avalanche of business

"WE HAVE so many Japanese visitors these days," says Mrs Niramol Suriyasat, former Thai Businesswoman of the Year and president of a joint venture with Toshiba of Japan, in explaining how her life has been changed by the surge of Japanese investor interest in Thailand.

Those who do not go to see her – and she speaks of "mission after mission" from Toshiba alone – pass by her front door. For the Toshiba factory is housed in what looks like a large red-bricked palace on the road from Bangkok airport to the city centre.

It is an often-quoted local landmark because the adjacent tower contains a display panel recording the temperature for every driver stuck sweating in a traffic jam.

Mrs Niramol, coolly dressed in blue, had been thinking of retiring before the rise of the yen in 1985 brought a fresh avalanche of business. Turnover rose by 84 per cent last year.

Toshiba pushed the company into new export markets because Japanese-made products had become too expensive. She even launched a new real estate business to provide factory space for foreign companies eager to find sites in the Bangkok area.

Mrs Niramol set up Thai Electric Industries with her husband in 1964. Five year later they linked with Toshiba in a joint venture which now produces household appliances, refrigerators and TVs, mostly for the domestic market.

When the yen began to appreciate, the company "suffered a lot," she says, because imported components grew more expensive.

But since then the rise of the yen has had a beneficial effect. She says that it became "increasingly difficult for the parent company to export from Japan. It therefore asked whether we could supply our products instead."

Her company first got an order for rice cookers for export to the US, Panama and the Middle East. "For the American market we had to get an underwriter laboratory certificate which involved changing some of the materials. We also had to import plugs and circuits from Japan."

After that came an order for electric fans to be shipped back to Japan. "That was quite difficult," she says, "because the Japanese are very particular about standards." Toshiba sent a quality inspector, and exports last year climbed to 50,000 cookers.

Mrs Niramol believes that Toshiba was using the fans and rice cookers to see whether the Thai company could meet Japanese standards. She went to Japan last year to discuss further projects and the Japanese have sent back a succession technical missions. She hopes the result will be export orders for such products as refrigerators and video cassette recorders.

While exports have been growing, the domestic market has also been booming because of rising incomes. The company added a second production shift to meet the demand, and then instituted overtime. Assembly line workers get basic pay of Baht 73 (£1.50) for a nine-hour day.

Mrs Niramol's new venture into real estate sprang from her search around Bangkok for land where Toshiba could establish a new factory. She was looking for 56,000 sq metres and instead purchased 1.6m sq metres. "With industrial land so difficult to find," she says, "why not develop an industrial estate?."

The project seems to have been a success. She has already sold sites to AT&T, the US telecommunications group, and several Japanese companies.

In contrast to Korea and Taiwan, there are many women in Thailand who have made a career in business, particularly in middle management. Mrs Niramol says the main "drawback is the difficulty for women to entertain men when business contacts depend on social relations."

Her husband is an engineer who graduated from Yale. "But I like to run everything," she says disarmingly. She went to Wesley College in the US and then to the Massachusetts Institute of Technology. She trained as a chemist, began her career as a personal assistant with Shell, and has a liking for statistics.

"I like doing time-and-motion studies," she says, adding that she is just beginning to introduce just-in-time inventory management into the company.

The unusual red palace structure in which the Toshiba factory is located reflects her interest in architecture. In keeping with this, she has decorated her office with prints by the American painter Edward Hopper. He also had a liking for red brick industrial buildings.

A pointer to China's future

IN OTHER parts of Asia, touts will approach you to sell anything from counterfeit watches to a visit to the massage parlour. But in Zhongshan, the girl behind the ticket counter of the local amusement park calls out: "We want foreign investment. Why don't you invest?"

This is the Pearl River Basin, the flat farmlands now busily industrialising that stretch up from Hong Kong to Guangzho (Canton), which are the nearest thing in Asia to a crossroads between the communist and capitalist world.

Politically Zhongshan is a part of Communist China. But in economic terms, it is also an outback for profit-grubbing Hong Kong, where that city's industries are rapidly relocating to escape growing congestion and spiralling costs of Hong Kong itself.

The combination of Hong Kong's entrepreneurial flair and China's cheap labour currently makes this one of the lowest cost manufacturing centres in South East Asia. But the Pearl River Basin is also a pointer to what could happen along the rest of China's seaboard if the plans of Zhao Ziyang, the Communist Party leader, for more outward looking growth, were to take a stronger grip.

Even in the space of a few years, the changes are startling. Drive into Zhongshan from the ferry terminal and you see suburban villas under construction that would not look too out of place in Los Angeles. They are being built by the local government for sale mostly, but not entirely, to wealthy Chinese from overseas.

At the hotel, smiling uniformed reception clerks wearing badges with the words "Smiling Service Activity" step forward to take your luggage. Behind them a row of clocks tells the international traveller the time in Beijing, Paris, New York and Tokyo.

In nearby Foshan, a government official rattles out figures that include the fact that the population of this district alone is 3.6m – making it larger than Singapore – and that in 1987 it had a real economic growth rate of 22 per cent.

Unexpectedly in the shops are bottles of Remy Martin, Guinness, Cinzano and Johnnie Walker whisky – all at exorbitant prices – along with the more expected Sony, Sanyo and Toshiba radios. On the blackboard in a local school a teacher has written the injunction to his pupils: "Work hard and you will progress" – as though holding up the model of Asia's other fast growing economies.

The new prosperity marks a happy combination of China's needs and the growing pressures on Hong Kong. China's open-door policy of recent years has encouraged overseas Chinese to use their wealth to finance schools, hospitals, roads and factories, as well as providing additional funds for their families.

But Hong Kong industry would not have had the incentive to invest so heavily in China if its manufacturers had not been faced with rising labour and rental costs.

The possibility of shifting their operations to China has given them a second lease of life. It has also

Mr Zhao Ziyang: Plans for more outward looking growth

allowed the Hong Kong economy to run an average real growth rate of over 12 per cent in 1986/87.

In shifting its manufacturing operations to China, a Hong Kong company can cut its labour cost by about a third. TWD, the electronics group, says it has to pay assembly workers in Hong Kong about HK$ 3,000 (US$385) a month compared with the HK$ 1,000 it pays in China.

Hong Kong-based companies also have the advantage over their East Asian competitors that the Hong Kong currency has remained pegged to the US dollar, and that the Chinese currency has continued to depreciate. Little wonder that Hong Kong exports rose by 33 per cent in value terms last year and company profits increased by 80 per cent.

The Pearl River Delta has been successful in attracting this investment from Hong Kong both because it is nearby and because, as one diplomat puts it, "towns like Zhongshan, Foshan and Dongguan have the authority, the ability and the gumption to attract money." The Beijing-backed Special Economic Zones (SEZ), like Shenzhen and Shantou further up the coast, have run into problems as a result of overbuilding and cumbersome procedures.

Many of the new manufacturing ventures in the Zhongshan area spring from personal contacts between local officials and friends or relations who are now businessmen in Hong Kong. They take the form of a joint venture or a processing agreement, under which the Chinese factory is paid a fee for the work it contracts.

Either way the Hong Kong partners normally provide equipment, some training and a little capital.

The Zhongshan electronics plant, the largest in the town with a 1,600 workforce, shifted to electronics after being a paper and packaging factory before the Cultural Revolution. It manufactures low-end radios, cassette recorders and mechanical tuners for Japanese companies like Matsushita, Toshiba and Aiwa.

Orders are placed through TWD, the Hong Kong electronics company, which supplies the components, checks the quality and ships back the finished products to Hong Kong.

Managers at the plant complain that the processing fee on exports is "minute" and the major benefit they get is in experience and technology. To improve its profits, Zhongshan wants to increase sales in the domestic market where prices are higher. It has thus entered a joint venture with TWD to produce the latters models for sale in China.

The Zhang Jia Bian toy factory on the outskirts of Zhongshan sprang up last year out of a chance encounter between officials from the district and a Hong Kong executive from Macao Toys, a subsidiary of Universal Toys of the US.

Mr Chen Jian-jiang, a manager at the plant says that "the two sides are in constant dispute over money matters. We want a larger fee but the Hong Kong partners say no. So what can we do?"

Zhang Jia Bian makes such well known toys as Cabbage Patch Kids, Matchbox Hot Rod racers, Matchbox action toys, transformable robots for Lansay and a Pee Wee Herman walking toy. Designs, samples and materials are brought from Macao and Hong Kong for making up at the factory, which already employs 1,200 people.

Altogether about 1m Chinese are now reckoned to be working for Hong Kong companies in factories across the border. With its home industrial labour force no more than 1m, this means that half Hong Kong's effective manufacturing workforce is now in China.

By no means all the operations are successful. Mr Ou Pei, vice director of Foshan's foreign economic office, says that of the US$300m of foreign investment in the district, 40 per cent is showing a profit, 30 per cent breaking even and the rest making losses.

Walk round factories in the Pearl River Basin and you see sloppy work practices and inefficiencies inconceivable in the more disciplined environment of Taiwan or Korea.

At one of Foshan's newest factories, making sanitary towels for the domestic market, five girls are employed pulling apart faulty towels so that the material can be recycled. Hong Kong companies reckon that productivity is 20 to 30 per cent less than in Hong Kong itself.

The Chinese are anxious that the joint ventures should expand from the current emphasis on light industry to more ambitious projects covering roads, telecommunications and nuclear power plants.

A few have already taken off. Hainan Island north of Hong Kong is being opened up like a Free Trade Zone on the Taiwanese model, but with the additional possibility that foreigners can buy land. Zhao Ziyang's policy is to extend the Pearl River Basin's export oriented growth to the rest of the Chinese seaboard.

Hong Kong has drawn such handsome short-term profits from the expansion of its industry to the mainland that few voices are raised to question it. An exception is the Government's industry department which fears that by prolonging labour intensive production Hong Kong is technologically falling behind Taiwan, Singapore and Korea.

Malaysia gets back in the race

MALAYSIA is a case of an Asian country that seemed to have the best chance of joining the ranks of the NICs but has been letting this slip from its grasp, writes Wong Sulong.

Until the late 1970s it enjoyed high annual rates of growth of around 8 per cent, thanks in part to its wide range of natural resources such as oil, natural gas, rubber, timber, tin, palm oil and cocoa. But it then tried to spend its way out of the world recession. It was able to borrow on the strength of rising oil production. But the world recession lasted too long.

The result of this gamble was that by the end of 1986, the country had an external debt of Ringgit 51bn (US$20bn).

Under its fourth Prime Minister, Dr Mahathir Mohamad, the Government launched its ambitious heavy industrialisation policy designed to propel the country to the front rank of nations by the turn of the century.

It was a case of being too ambitious at the wrong time. Today, the heavy industries, cement plants, steel and sponge iron factories, pulp and paper mills and the national car project are, in the words of one minister, "in a mess."

The past five years have sapped the energy and confidence of Malaysians. Prices of all of the country's major commodities collapsed in 1985/86, ushering in the worst recession since independence.

Confidence was shaken by the spate of financial and political scandals and bitter infighting within the ruling United Malays National Organisation (Umno), long regarded as a bulwark of political stability. The financial system has also been under strain, and by the end of last year banks and finance companies had Ringgit 4bn of bad loans provisions – equivalent to 6.8 per cent of loans.

Dr Mahathir, 61, came to power in 1981, on a wave of public expectations. The enthusiasm has long gone. The economic downturn heightened social and ethnic tensions and forced him to adopt increasingly authoritarian measures.

This culminated in a crackdown last October. Nearly 120 people were detained under the Internal Security Act.

Yet Malaysia is not out of the NIC race altogether. Last year could well have been a turning point. Even as the country's political fabric was being torn up, the economy made a decisive turnaround.

A sudden surge in exports during the second half of the year pulled the economy out of recession and reinforced the renewed competitiveness of Malaysia.

"Looking back, 1987 was indeed an extraordinary year – a year of worry and achievement," says Tan Sri Jaffar Hussein, governor of the increasingly powerful Central Bank.

Dr Mahathir Mohamad: Has adopted authoritarian measures

The fundamentals are in place, he adds, for sustained economic recovery. Last year Malaysia had a 4.7 per growth in real gross domestic product (GDP). Barring a world recession, or a sharp fall in oil prices, a 5 per cent growth rate can be expected this year and in 1989.

For 1987, Malaysian exports rose by 25 per cent to Ringgit 44.5bn ($17.4bn), while imports were up 12 per cent to Ringgit 29.8bn. The current account surplus was a record Ringgit 5.88bn and external debt stabilised at Ringgit 50.7bn. Debt servicing meanwhile fell from 18 per cent of exports in 1986 to 15.2 per cent.

Last year's export performance was largely due to high commodity prices. But it cannot be relied on that these will climb further.

Therefore the hope is that the manufacturing sector, and particularly exports, will take over as the engine for growth.

Exports of manufactured goods rose sharply by 33 per cent to Ringgit 20.3bn last year. However, the manufacturing export base is narrow. Electrical and electronic goods and textiles make up two thirds of exports. Nevertheless, overseas trade in other goods, such as food processing, and rubber and timber products, is picking up.

For 1988 the manufacturing sector is expected to account for 23.5 per cent of GDP, replacing agriculture as the most important component in the economy.

The Government has done much in recent years to promote industrialisation and investments. It has replaced its heavy industries policy with the more realistic, UN-assisted "master plan". This puts the main emphasis on producing light and intermediate goods.

Dr Mahathir has told foreign investors that the Government is focusing on the growth, not the equity restructuring aspect of the New Economic Policy – the programme intended both to increase national wealth and to give Malays a larger share.

Some foreigners are responding, but local businessmen have doubts about the Government's sincerity and fear the arbitrariness of Malay political and bureaucratic power.

Last year, the Malaysian Industrial Development Authority approved 333 projects with a proposed paid up capital of Ringgit 3.9bn. This compares with approved projects worth Ringgit 4.3bn in 1986.

While the foreign equity component rose by 43 per cent to Ringgit 750m, that of local interests fell by an equally alarming percentage.

While few will deny the Government's claim that there are many good business opportunities, the fact remains that too few investors will seriously consider Malaysia unless vital elements of national life are resolved.

The most vital is confidence. The bitter and protracted power struggle within UMNO has had a debilitating effect on the country.

Equally important is the future of the New Economic Policy (NEP) which expires in 1990. It is an all-embracing 20-year government programme designed to attack poverty and create a more equitable society.

But the emphasis has been on helping the Malays to the extent that the Chinese feel discriminated against. It is almost certain that the NEP will be extended beyond 1990. However, unless the emphasis is moved from racial redistribution of wealth to poverty eradication and growth, the non-Malays will feel disillusioned.

Illustrations by Gary Wing